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China Report

ECONOMIC AFFAIRS

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17 MARCH 1987

CHINA REPORT

ECONOMIC AFFAIRS

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NATIONAL AFFAIRS, POLICY

INDUSTRIAL DEVELOPMENT IN LAST DECADE DETAILED

HK110550 Beijing JINGJI GUANLI in Chinese No 12, 5 Dec 86 pp 3-5

[Article by Gong Jiao (7895 8032): "Our Nation's Industrial Development Over the Last 10 Years"—edited by Liu Qichang (0491 0366 2490)]

[Text] Since the smashing of the "gang of four" in 1976, our nation's industrial front has seriously implemented the party's principles of "readjustment, reform, reorganization and improvement" and the policy of "enlivening the domestic economy and opening to the outside world." In the national economic readjustment and economic structural reforms, the former situation of great fluctuations in industrial production has been changed and a new situation of thriving prosperity and stable development has appeared.

Industrial Production Has Maintained a Fairly High Growth Rates

Throughout the last 10 years, our nation's industrial production has maintained a fairly high growth rate. Our total industrial output value (estimated) for 1986 is over twice that for 1976 and there was an average annual growth rate of 10.7 percent. This was higher than the average annual growth rate figure of 8.5 percent for the preceding 10 years. In the first few years after the smashing of the "gang of four," there was an unprecedented high tide of enthusiasm among the nation's people for developing production and for building a strong, modern socialist country. Industrial production which, during the 10 years of internal disorder, tottered on the verge of collapse, revived and developed rapidly. In 1977, industrial production grew 14.3 percent, in 1978 it grew 13.5 percent and in 1979, the figure was 8.5 percent. Thus quite a high rate of development was maintained. However, for a long period, the situation was such that our nation's economic proportions were seriously disrupted, economic management systems were ossified and enterprises lacked vigor, and they increasingly obstructed the development of industrial production. Beginning in 1980, a series of adjustment and reform measures were implemented. During the adjustment period, the growth rate of industrial production was quite low, and then it gradually increased over the years. In 1982, the growth rate was 7.7 percent, in 1983 it was 10.5 percent, in 1984 it was 14 percent and in 1985 it grew 18 percent. In 1986, on the basis of the very high growth rate in the preceding year, production was still able to grow 7-8 percent. This clearly shows that the economic structural reforms have put new vigor into industrial production.

The Ratio Between Light and Heavy Industry Is Being Gradually Adjusted

In the last 10 years, the state has adopted a series of policies and measures to adjust the industrial product mix and speed the development of light industry and the textile industry. Between 1977 and 1985, light industry grew at an average annual rate of 12.6 percent. This exceeded the annual growth figure of 9.6 percent for heavy industry over the same period and thereby changed the situation in the preceding 10 years where heavy industrial growth was faster than light industrial growth.

During the readjustment and reforms, light industry has strived hard to improve the product mix and put great efforts into increasing the production of products which have ready markets. Of light industry and textile products, the growth rate of brand-name and easily-salable products has exceeded the growth rate of general products. Compared to 1976, the production volume of silk fabrics, knitting wool, woollen goods, bicycles, sewing machines, watches, cameras and other such medium- to high-grade products has grown 1.7 to 7 times. The production volume of sugar and dairy products, canned goods, beer and wines, synthetic detergents, and other products which have ready markets grew from 1.7 to 9.3 times. In the last 10 years, the production of high-grade, durable consumer goods such as tape-recorders, washing machines, refrigerators, color televisions and so on, which people had previously not even dared to ask the price of, has grown tenfold or even tens of times, and these products are daily becoming more common in our nation's cities and villages. At present, the proportion of color televisions in the nation's total television production volume has risen from the 1976 figure of 1.5 percent to 26.1 percent in 1985.

During the readjustment, the direction of service for heavy industry has been firmly changed and the product mix readjusted. In 1985, the value of the products supplied to light industry, the textile industry and the market by the machine-building industry reached 82 billion yuan, a growth of over 2 times compared to 1976. In the production of steel products, the output of sheet steel, silicon steel products, seamless steel pipe and other superior varieties grew from 1.6 to 3.5 times, greatly surpassing the 72.8 percent growth in ordinary large and medium-size type products. The production of raw coal, generated electricity, crude oil, steel products, caustic soda, cement, plate glass and other products in tight supply also grew 43.3 percent--2.9 times. The production of machine products for energy, transportation and agricultural departments, such as generating equipment, petroleum equipment, cars, railway engines, trucks, buses, small tractors, and so on grew 1.3 to 2.4 times.

Through hard work over several years, the proportional relationships between light industry and heavy industry have been basically adjusted. The light industry/heavy industry ratio (calculated at fixed prices) has been adjusted from 43.7:56.3 in 1976 to 49.6:50.4 in 1985. From 1977 to 1985, those light industries which used agricultural products as raw materials grew at an annual average rate of 11.7 percent. At the same time, those light industries which used industrial products as their raw materials grew more quickly, at an average annual rate of 14.4 percent.

Initial Results Are Being Seen in the Technical Transformation of Old Enterprises

Our nation's industrial production development has gradually moved from the former reliance on extension-type expanded reproduction to reliance on intensification-type expanded reproduction. It is now traveling the road of tapping the potential of and transforming and reforming old enterprises. The whole-people ownership enterprises capital construction investment ratio dropped from 70.8 percent during the period of the Fifth 5-Year Plan to 52.2 percent during the period of the Sixth 5-Year Plan. At the same time, the proportion of investment put into renewal and transformation and other areas grew from 29.2 percent to 47.8 percent. During the Sixth 5-Year Plan, newly-increased capabilities realized through renewal and transformation were as follows: 21.56 million tons of coal extraction capacity; 9.724 million tons of petroleum extraction capacity; 1,116 kilowatts of electricity generation capacity; 25.6 million tons of cement; 11.98 million standard boxes of plate glass; and 11.89 million bicycles. In recent years, the implementation of reform measures such as increasing the decision-making power of enterprises and enlivening enterprises has increased enterprises abilities to engage in self-transformation and self-development. The proportion of retained profits to total realized profits in state-owned industrial enterprises rose from 13 percent in 1981 to 31.6 percent in 1985. This has expanded the source of funds by which enterprises can engage in accumulation and investment by themselves. The funds used by state-owned industrial enterprises in developing production and trial-manufacture of new products was 1.6 times as great as those expended in the previous year. The state also adopted special policies regarding the technical transformation of the light and textile industries and has made special arrangements in terms of funds. This brought obvious changes to the appearance of over 10,000 enterprises in light industry and the textile industry. In 1985, the total output value of the light industry and textile industry systems was over 250 billion yuan, an increase of 54.3 percent over 1980, this output value produced over 45 billion yuan in profit taxes, an increase of 34.6 percent over the 1980 figures; and foreign exchange realized through exports approached \$8.7 billion, an increase of 45 percent over 1980. Over the last 10 years, our nation's improvement in production capacity, raising of production technology levels, increased production of products in short supply, and improvement of the product mix has mainly been realized through the tapping of potential and through transforming and reforming enterprises.

Enterprises' Technological Levels Have Clearly Improved

In the last 10 years, our nation's industrial science and technology departments have also realized some outstanding achievements in developing and also importing advanced technology. Our nation has been successful in developing a number of projects which have reached advanced world standards, and these have enabled the level of production technology in industrial enterprises to enter a new stage of development. The majority of the 38 key scientific research projects arranged by the state have been completed in accordance with the plans. Over 40,000 scientific and technological achievements have won national or provincial (ministry) awards, while 1,761 projects have won national-level scientific and technological achievement awards. Some of these

scientific and technological achievements, such as the "Milky Way" one billion calculations per second large-scale electronic computer, communications satellite fixing technology and the Jinshan large-scale polyester fibre plant in Shanghai, which have all been developed by our country, reached advanced international standards.

There have also been new advances in digesting and absorbing imported technology. Take for example, the Taiyuan Heavy-duty Machine Factory which together with the (Demake) Company of West Germany is supplying a rolling mill for 140-mm diameter continuous, seamless piping, for the Baoshan Iron and Steel Works. This factory has already completed its contracted share of 45 percent of the manufacturing equipment. This smoothly passed the inspection and receipt procedures and has reached international standards.

During the Sixth 5-Year Plan, our nation's machine-building industry developed over 6,000 new products and realized 10,000 scientific and technological achievements. Of these, 2,000 won national or ministry scientific research result awards. Of the over 50,000 mechanical and electrical product types at present, 26 percent have reached a level equivalent to the international standard level of the end of the 1970's and beginning of the 1980's.

Over the last 10 years, our nation's industrial departments have carried out technical transformation with the aim of saving energy and also developed energy-saving equipment. The iron and steel industry has grasped technical transformation with energy-saving as the focal point, which resulted in the consumption per steel ton falling from 2.52 tons in 1978 to 1.75 tons in 1985. In the nitrogenous fertilizer industry, the consumption per ton of ammonia fell from 21.15 million kilocalories in 1980 to 16.57 million kilocalories in 1985. During the Sixth 5-Year Plan, the machine-building industry developed 1,143 types of new energy-saving products, propagated the use of 303 energy-saving items and obtained obvious socioeconomic benefits. For example, each cement residual heat boiler, a boiler which has been newly-developed, saves annually over 17,000 tons of standard coal.

Actively adopting international standards has promoted the improvement in and speeded the generational change of products. During the Sixth 5-Year Plan, the Ministry of Machine-Building industry system had 2,543 product types from 981 factories reach international standards or foreign advanced standards. This surpassed the figure of 1,938 product types set down by the Sixth 5-Year Plan. In large and medium-size electrical machinery industries, many electrical machinery factories have trial-manufactured and produced Y-system three-phase asynchronous motors which meet international standard requirements. In the machine-tool industry, International Standards Organization precision standards and International Standards Organization machine-tool precision inspection standards are widely employed. Now, Y-system small-scale asynchronous motors, the low-consumption medium-size and small-scale electrical transformers and industrial resistance furnaces produced in our country meet the demands of international standards.

Economic Results Have Improved

Since the 3d Plenary Session of the 11th CPC Central Committee, in the ideas guiding industrial production, we have gradually changed from the former situation of placing one-sided stress on seeking speed and output value to paying attention to improving economic results. The labor productivity of all staff and workers of industrial enterprises in 1985 was 65.7 percent above the figure for 1976, an average annual improvement of 5.8 percent. The consumption of energy per 100 million yuan of output value has fallen from 78,500 tons in 1980 to 52,300 tons in 1985. The amount of floating funds used per 100 yuan of total industrial output value fell by 8.2 yuan from 1976 to 1985. From 1977 to 1985, cumulative profit-tax was 862 billion yuan, about twice the amount invested in fixed industrial assets in the same period, and 88.6 percent above the figure for the preceding 10 years.

Overall, there has been a clear improvement in product quality over the preceding 10 years. In 1985, there were 772 industrial products which won gold or silver national awards. Of these, 83 were machine-building industry products. The superior product rate of machine-building industry products has reached 21.76 percent. At present, the MTBF [Mean Time Breakdown Free] of our nation's black and white televisions has improved from the previous 500 hours to 5,000 hours and for some superior brand-name products, this figure has reached 10,000 hours.

Township and Town Industry Is Developing wiftly

This is a breakthrough point in our nation's industrial development over the last 10 years. The state, in the funds and taxation areas, has adopted a series of preferential policies and measures for township and town industry. In 1985, the number of industrial enterprises of the two levels of township and town reached 520,000, and total industrial output value reached 137.5 billion yuan. This was a growth of 4.4 times over 1976, resulting in an average annual growth rate of 18.3 percent. The proportion of township and town industry total output value in total output of all industry rose from 7.2 percent in 1976 to 15.7 percent in 1985. [as received] Many of the products of township and town industries have a quite important position in our nation's industrial production. At present, the production of bricks and tiles by township and town enterprises is respectively 79 percent and 88 percent of national production volumes. Also, their production of raw coal, iron sulphate ore, phosphate rock, machine-made paper and cardboard, daily-use pottery, and edible vegetable oil constitutes from 20-37 percent of national production volumes.

In the last few years, township and town enterprises, through developing labor-intensive industries and economic cooperation and coordination with major industries, have fully brought into play their roles in employing surplus labor in the rural areas and enlivening the rural economy. In 1985, our nation's rural areas association and individual enterprises increased in number to 9.24 million and newly placed over 12 million rural laborers. Total staff and workers numbered 69.8 million of whom 25.78 million were employed in township and town industry. Rural cooperative operation and individual operation

industrial enterprises totaled 3.76 million with 12.13 million people employed by them. At present, the output value and number of people involved in labor-intensive township and town industries such as foodstuffs, beverages, tobacco products, weaving, tailoring, fur and pelt processing, timber processing, production of cane and natural fibre products, handicrafts arts, and so on is above 50 percent of the figure for all township and town enterprises.

Since our nation implemented the policy of opening to the outside, township and town enterprises and industrial and trading circles in countries all over the world have established wide-ranging links and products have swiftly entered international markets. After township and town enterprises earned \$3.3 billion in foreign exchange in 1984, they earned another \$4 billion in 1985. Now, there are over 8,000 township and town enterprises which produce export commodities, of which 870 are cooperative or joint-fund ventures with foreign partners. The amount of foreign exchange earned annually through the exports of township and town enterprises is now over 10 percent of our nation's total foreign exchange earnings. This demonstrates that our nation's rural economy is gradually changing from a closed-type to an open-type situation.

In the last 10 years, the achievements in the development of our nation's industrial production have been great. However, we should also recognize that as far as industry overall is concerned, enterprise quality is poor, technical standards are low, and product mix is irrational, economic benefits are not ideal and there are some widespread problems. Particularly, in the latter part of the Sixth 5-Year Plan, for a time, a tendency to blindly operate at "high speed" appeared and there were quite serious fluctuations in product quality. Thus, during the period of the Seventh 5-Year Plan, at the same as we strengthen macroeconomic control, we must firmly guarantee the decision-making power of enterprises in various respects, and further enliven enterprises, especially the medium-size and large enterprises. With the precondition that we continue to strictly control the scale of investment in fixed assets, we must further speed the technical transformation and renewal of old enterprises. In terms of funds, taxation and prices, we must adopt a series of special preferential reforms and measures and greatly encourage the production of products which have ready sales avenues and export products. We must place, in a particularly outstanding position, the raising of product quality, the reduction of material consumption, and the improvement of economic benefits. In this way, our nation's industrial production will continually develop in a stable and coordinated way and this will provide a good base for vigorous economic development in the 1990's.

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NATIONAL AFFAIRS, POLICY

ARTICLE STRESSES IMPROVING ECONOMIC EFFICIENCY

OW110042 Beijing XINHUA Domestic Service in Chinese 1323 GMT 10 Feb 87

[Text] Beijing, 10 February (XINHUA)—Article: The Central Link in Increasing Production and Practicing Economy Lies in Improving Economic Efficiency

XINHUA Commentator

In response to a call by the party Central Committee and the State Council, a drive to increase production and practice economy and to increase revenues and reduce expenditures is being unfolded in the country. To increase production and practice economy and to increase revenue and reduce expenditures is an important task in China's economic construction this year, as well as a principle that we should persistently follow in the entire course of our socialist modernization program. We must not only pay keen attention to this current task but also make sustained and protracted efforts to carry out the drive by bringing into play the tradition of building up the country through thrift and hard work, thereby preserving healthy social behavior and the vigorous, enterprising mental outlook among the people of our country.

People frequently think of increasing production and practicing economy in terms of repairing and utilizing old or discarded things, and of conserving as much coal, oil, and electricity as possible, which is very commendable. We should continue to advocate this spirit and strive to lower material consumption in the production process because, without this spirit, it is impossible to increase production and practice economy. However, people are also apt to neglect an even more important aspect in increasing production and practicing economy—that is, improvement of economic efficiency. In fact, the central link in increasing production and practicing economy is improved economic efficiency in all trades and professions.

In launching the drive to increase production and practice economy, all localities, trades, professions, and enterprises should proceed from the actual situation in each unit in identifying key issues that affect their economic efficiency and adopt measures, with the definite objective of increasing efficiency.

As far as increasing production and practicing economy in capital construction is concerned, it is necessary to shorten construction periods, lower costs,

and improve the quality of engineering projects urgently needed by the state. As for nonproductive projects such as optional or useless buildings and pavilions and projects for the processing industry that require raw and semi-finished material supplies and a market for finished products, it is necessary to resolutely stop or postpone such construction--instead of just trying to change designs and improve the work--in order to prevent further waste.

In industrial production, it is necessary to realistically appraise the situation. Enterprises manufacturing marketable products should strive to increase production and lower consumption, especially material consumption, in order to reduce production costs. As for manufacturers of unsalable goods overstocked in warehouses, it is necessary to immediately readjust the produce mix and switch to the production of marketable goods. Otherwise, it would be even worse and impossible to improve economic efficiency, as more waste will be caused by the continuous overstocking of unsalable goods.

As for enterprises whose poor economic efficiency is primarily the result of outdated technology and equipment, it is necessary to accelerate their technological transformation and give top priority to upgrading their technology in the current drive.

Just as the purpose of reform is to invigorate production and management and develop social productive forces, the drive to increase production and practice economy aims to improve economic efficiency. Special efforts should now be made to invigorate enterprises, large and medium-sized enterprises in particular, in order to give strong impetus to the drive. Facts have sufficed to prove that invigoration of the operational mechanism can bring about a marked increase in the economic efficiency of enterprises even without significant changes in their external conditions. Therefore, it is necessary to deepen the reform in the drive.

As Comrade Zhao Ziyang said four years ago, "in discussing economic efficiency, it is necessary to, first of all, clearly define a major goal--that is, to use the minimum live labor and material consumption to produce the maximum products needed by society." He explained that the first half of the goal is to stress conservation and reduce consumption, while the second half is to increase the production of useful assets for society. We must earnestly inject this spirit into the drive to increase production and practice economy. It is necessary to realistically combine slogans in general with the actual situation in each unit, guard against formalism and the pursuit of undeserved fame, and do a solid job in developing social productive forces in order to contribute to socialist modernization.

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CSO: 4006/343

NATIONAL AFFAIRS, POLICY

JOURNAL ON HIGHER PRODUCTION, PRACTICING ECONOMY

HK130705 Beijing LIAOWANG in Chinese No. 4, 26 Jan 87 p 7

[Article by Yu Youhai (0060 2589 3189): "Increase Production and Practice Economy, Fulfill This Year's Plan"]

[Text] On entering the second year of the Seventh 5-Year Plan, the Chinese people have, with the spirit of hard work, thrown themselves into the struggle for fulfilling the 1987 plan for social and economic development. It is very gratifying to see that at the very beginning of the new year, people are talking much about how to carry forward the spirit of hard work, increase production, and practice strict economy in order to ensure a more sound and smooth development of our economy.

When the last page of the 1986 calendar was about to be turned, many overseas newspapers commented on the tremendous successes China had achieved during the year. A news agency commented: "The present economic situation in China is better than last year," another newspaper said that an "amazing leap forward" had been seen in China. This is an indisputable fact. The eight years since the 3d Plenary session of the 11th CPC Central Committee have been a golden age for our economic development. Our national strength has increased and the people's living standards have been raised. This is very obvious to everybody and everybody is related by the excellent situation. However, one thing that makes us alert is that some comrades have become somewhat muddleheaded under the new conditions. In the past two years some localities vied with each other in building luxurious halls and pavilions, spent money without restraint, and paraded their wealth. As a result, their expenditures rose sharply. At the same time, people burned with a desire for a high level of consumption. In some people's eyes, it seems that our country has become very rich and there is no need to emphasize the spirit of increasing production and practicing economy, as well as building up our country through diligence and frugality. Obviously, such a point of view does not tally with the actual situation in our country.

After the 3d Plenary session of the 11th CPC Central Committee, the party shifted the focus of its work to economic construction and adopted a series of correct policies. All this has accelerated the progress of our economy with tremendous achievements. However, generally speaking, ours is still a poor country with a weak initial foundation, economic results remain poor, and the state's financial resources are still limited. On the whole, in 1986 the

economic situation was good, rising investment and consumer demand were kept under control, industrial production increased at an appropriate rate, the rural economy developed steadily, and market supplies were sufficient. However, we are still facing many problems: for example, the poor quality of some products, large stocks of goods, raised production costs, the increase in enterprises which have incurred losses, and the trend of falling profits and taxes. Meanwhile, the increase in commercial circulation expenses, low turnover rate of operating funds, and some other problems are affecting state revenue to a certain degree. However, under such circumstances, as long as we count every cent and make every cent count, use limited funds where they are most needed, and continue to expand production, it is still possible for us to fulfill this year's economic plan.

However, if we cannot solve the following major problems as soon as possible, we will probably fail to attain our goal.

First, capital construction is still over-extended. Our present national strength has difficulty in withstanding the burden. According to estimates made by the relevant departments, if we complete all the capital construction projects started by the end of last year, this year and next we will use half of the total investment funds designated for the Seventy 5-Year Plan. Many of those capital construction projects began construction blindly and they are confronting many problems, such as colossal waste, shortage of raw materials, and markets for their products. One more thing worthy of note is that during the 25 years before 1978, nonproductive projects took up about 20 percent of capital construction, but in the past few years the proportion has increased sharply. During the Sixth 5-Year Plan the average proportion was 42.6 percent. This is because we have built too many high buildings and luxurious halls and pavilions. Meanwhile, large-scale housing construction has also used part of the funds for productive construction and hindered the steady development of the national economy.

Second, consumption is increasing too fast. This exceeds the increase in our national income and the supply of available commodities in the markets. After drawing a lesson from the high rate of accumulation over a long period in the past, over recent years we have gradually readjusted the proportions of accumulation and consumption in the national income, and the general situation in this aspect has been good. However, the sharp increase in consumption over the past few years has exceeded the growth rate of the national economy. This constitutes a vexing problem. For example, in the seven years before 1985, the consumption funds of urban and rural inhabitants increased by 225 percent, while national income increased by only 227 percent. Meanwhile, there was a wider gap between production and marketing of commodities, especially high-grade durable consumer goods. In the past three years the output of color television sets has increased by more than 14 times, while a large number of foreign color television sets have also been imported; nevertheless, so far the commodity is still in short supply.

It can thus be seen that economic construction and consumer demands in China exceed social supply. If such a situation appears for a while, there is no serious harm; but if it lasts for a long time, there will be serious consequences. Only by striking a balance between the two can the economy

develop smoothly. As a large country with 1 billion people, we must rely on ourselves and expand production to enrich market supplies. The people's desire for consumption should not exceed our actual economic situation.

The aforementioned problems are in addition to price rises for some raw materials and extra increases in some expenses, but there is still plenty of opportunity to show our prowess and our huge potential is far from being fully tapped. This year we will carry out reform in depth, open wider to the outside world, and instill greater vitality into enterprises. Also, if we make efforts to increase production and practice economy, it is entirely possible for us to fulfill this year's economic plan.

For example, last year state-run enterprises within the budget overstocked an immense amount of unsalable goods worth about 1.7 million yuan. This is a frightful waste of material and financial resources and manpower. If this year these enterprises can produce more readily marketable commodities to meet social demands, the negative number of 1.7 billion yuan will become a positive number and social wealth will also increase.

At present some people are highly sensitive to the relationship between increasing production and practicing economy and personal consumption. They worry that if practicing economy is stressed, things will get harder for them. This is a misunderstanding. Socialist production aims only at satisfying people's growing material and cultural demands. This year we should increase production and practice economy, but living standards of urban and rural inhabitants will improve still further. Premier Zhao Ziyang clearly pointed out: "The growth rate of individual consumption should not be higher than that of production, and the rate of workers' wage increases should not be higher than the rate of raising labor productivity. We must continue to carry forward the fine tradition of working hard and building up our country through diligence and frugality."

This year is a year vital to the implementation of our Seventh 5-Year Plan. Our tasks are arduous, but our future is bright. Let us work together with one heart and fight in unity.

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CSO: 4006/343

PRC JOURNAL ON GOVERNMENT MANAGEMENT DECENTRALIZATION

HK110540 Beijing JINGJI GUANLI in Chinese No 12, 5 Dec 86 pp 11-15

[Article by Wu Jinglian (0702 2417 8780), Zhou Xiaochuan (0719 1420 1557), and Li Jiange (2621 0494 7041): "Functions of Government and Management at Different Levels"--Editor-in-Chief: Lin Daojun (2651 6670 0689)]

[Text] China occupies vast territory. Its various regions differ greatly in natural and human conditions. Over several thousand years in the past, when administrative power predominated, it has always been a controversial issue whether a system of highly centralized power in the hands of the central government or a system of decentralization with local governments sharing administrative power would be more advantageous to economic development and political control. It is now clear that a socialist planned commodity economy is the target model for our economic system reform. By its nature, however, the commodity economy is a system reform. By its nature, however, the commodity economy is a system of decentralized decisionmaking. It is indisputable that under this system, macroeconomic regulation can be achieved only through multilevel control. Therefore, the overwhelming majority of people hold that a system whereby the central and the local governments have clearly defined duties and management is exercised at different levels should be gradually established. The question is: How should governmental functions be divided between different levels, and how can management be exercised at different levels? Currently, because we are undergoing a transitional period in which two systems coexist, the old method of administrative management will last a relatively long time within a considerably wide scope. The question of how the relevant functions should be divided between governments at various levels is actually a continuation of the past debate about whether administrative power should be centralized or decentralized under the condition of administrative control by directive. This question is, moreover, interwoven with the issue of dividing functions between governments at different levels and exercising control at different levels in a socialist commodity economy, so that the matter becomes more complicated.

I. Multilevel Control Must Be Based on Separating Governments' Duties From Enterprises' Duties

A highly influential viewpoint in the current debate is that under the framework of the existing system of direct administrative control, governmental

management functions should be divided among various levels, governments at different levels should be responsible for various matters and powers originally handled by the central government, and everything originally in the central government's charge should be managed at different levels. This viewpoint holds that ending the dictatorship of various departments by assigning powers to local governments is the best strategic option for enhancing effectualness, reducing resistance, and finally achieving the assignment of powers to enterprises. We should, however, analyze in depth whether this method can work.

China's socialist economic system was established in the early 1950's according to the Soviet model of "command economy." In the mid-1950's, China, like many other socialist countries, began to realize that this system had fundamental defects which should be corrected through reform. However, because the essential causes of those defects were not fully known, and because of the long-standing tradition of the predominance of administrative power in China history, people considered the macroscopic management method of relying on administrative command as natural. Most people, in contrast to a small number of advanced elements, attributed the traditional system's defects to "over-concentration of power" and thought that "decentralization of power" was a sure cure. This idea of reform could not break through the basic framework of the "command economy." But reflected eagerness to seek a way out in "transferring powers to lower levels under the existing system." In this ideological setting, China carried out in 1958 a reform which basically included "transferring the power of control to the enterprises," "transferring the power of planned management to lower levels," "transferring the power of appraising and approving capital construction projects to lower levels," extending local authorities' powers over financial and monetary matters, instituting the financial system of "dividing revenues between various parties concerned according to set proportions," instituting, in the field of credit, a system of "transferring powers over handling deposits and loans to lower levels, assuming responsibility for task completion according to plans, and management of balances," and so on. Many systems instituted in that reform constituted the basis of the "Great Leap Forward" and were abolished with the failure of the "Great Leap Forward" and the "readjustment" of the national economy. However, this idea of "decentralizing administrative powers" has always greatly influenced many people. Some specific measures adopted at that time repeatedly reappeared in various modified forms in subsequent reforms of the management system. At the 3d Plenary Session of the 12th CPC Central Committee, the "planned commodity economy" was decided upon as the target model of our reform. This, for the first time, implied a complete negation of the path of "decentralizing administrative powers," which is characterized by vacillations between a high degree of concentration of power with "various departments exercising dictatorship" and practices of decentralism with "separatist rule by various localities." However, that old idea has still frequently reemerged. The series of new developments over the past one or two years have shown that the many drawbacks of the model of division of administrative powers among local authorities, with its resultant tendency toward regional closure and its lack of self-restraining mechanisms, are major causes of China's current economic fluctuations and declining economic results. In the past, the situation of segregating departments and localities, and the cyclical vacillations between the dictatorship of various departments and the separatist rule by various

localities, actually resulted from attempts to decentralize management functions under the framework of direct administrative control. Local authorities understand specific local conditions but find it difficult to master overall equilibrium and the macroscopic structure; departments are in the reverse situation. Reliance on either is not a good way out that satisfies both requirements. If the central government transfers powers to the lower levels and exercises indirect control, while the localities assume powers and impose direct intervention, major disruptions in the industrial pattern and the equilibrium in aggregates will inevitably occur. In order to correct macroeconomic disequilibrium, the central government can only further increase investment in the key areas of infrastructure, energy resources, materials, and raw materials. This will lead to the simultaneous boosting of investment by the central and local governments, so that aggregate demand will inevitably get out of control. Under the framework of direct administrative management, however, strengthening macroeconomic control can be achieved solely by further consolidating the central government's powers. Therefore, in the 1985 international conference on macroeconomic management convened aboard the ship "Ba Shan," though most people were against backtracking and repossessing the powers which had been transferred to the lower levels, the majority of scholars, both Chinese and foreign, including economists who enthusiastically advocate a market economy, held that at that time under the conditions of an "overheated" Chinese economy, restoring the stern administrative measures of the traditional system and strengthening central control were necessary. Thus, we again painfully followed the cycle of reliance on departments--reliance on localities.

It appears that we must open our minds and follow the principles governing the socialist commodity economy, clearly defining the relationship between the governments at different levels, and redesigning China's macroeconomic management system. Since separating the governments' duties from the enterprises' duties and exercising indirect control over the enterprises constitute the orientation of reform, we should resolutely follow this path and build a multilevel management system which is compatible with the socialist commodity economy.

II. Principles Governing the Designing of a Multilevel Management System, and Division of Responsibilities and Powers Between Governments at Different Levels

A planned commodity economy, or a managed market economy, is a system of control with decentralized decisionmaking at different levels. Currently, in various countries where the commodity economy is subject to state intervention, the typical multilevel structure is: government--a number of enterprises--a number of consumption units. It is relatively mature theoretically and practically. However, in a big country like China, rationally designing the local governments' status and functions in a multilevel structure and fully developing the local governments' enthusiasm constitute a subject that requires further study. The greatest difficulty lies in coordinating macroeconomic interests with local interests, so that the local governments are capable of self-development and also have to work under mechanisms that require them to exercise self-restraint and assume responsibility for their own actions. We hope for success in designing a system with the following characteristics: effective control of aggregate demand in the national economy; ensured balance of payments equilibrium; full and rational development of the local governments'

enthusiasm; a conscientiously strengthened basic structure and conscientiously solved employment problems; separation of governments' duties from the enterprises' duties and reduced direct administrative intervention in micro-economic decisionmaking; safeguarding proper competition; achieving rational division of labor and cooperation between regions based on developing the strong points and circumventing the weak points of each; and helping all localities from east to west to become rich simultaneously. Currently, many tentative ideas about reform are closely related to the question of designing relevant relationships between the central and the local governments.

Out of several instruments of macroeconomic regulation and control—fiscal measures and taxation, monetary and financial measures, foreign exchange, and pricing—which can be put under the local governments' control? Some comrades suggest that all these four categories of instruments can be handled by the local governments, or, if multilevel contracting is practiced, the local governments can act promptly on their own discretion within the limits prescribed by contracts for task completion. We think we should carefully study the feasibility of this proposal.

According to systems engineering principles, in designing a system of multilevel control, we must follow three basic principles: First, the subsystems must be clearly distinguished from one another and have independent restraining mechanisms; second, the subsystems' properties and results must be independently evaluated; and third, there must be mechanisms which can effectively regulate the subsystems according to their behavior. We think that in designing a multilevel macroscopic management system, we should try our best both to separate management duties and centralize the use of the means of coordination.

Analysis based on these principles shows that management of aggregate demand, foreign exchange equilibrium, and price levels should come under the central government's regulatory functions. They cannot be subjected to multilevel control by local governments, or subjected to multilevel contracting, including contracting for task completion. The reasons are:

- 1) Our reform should serve to develop unified national markets like the commodities market, the products market, and the financial market, and to strengthen horizontal links: if separatist segregation of markets is not permitted, provinces and municipalities will not be subjected to relatively independent restraints in matters of commodities, products, and funds.
- 2) A particular locality is not subjected to any self-restraining mechanism for controlling the magnitude of aggregate demand, because if a province or municipality experiences an expansion in demand, the subsequent price changes will affect other localities; whereas its own gains will probably exceed its losses, other localities which do not engineer an expansion in demand will suffer from the effects of inflation. This will encourage scrambling to increase demand and shifting troubles onto neighbors.
- 3) If, in the national economy, investment or consumption funds get out of control, or prices rise, or the balance of payments situation deteriorates, it will be difficult to opportunely and justly ascertain where the problem or

problems have arisen, and hence to set up quantitative criteria for formulating regulatory policies or deciding on awards or punishments.

4) If contracts for task completion in the areas of credit balances, currency issue, and foreign exchange balances are awarded to the lower levels, not only will negotiation and readjustment of the quotas stipulated in those contracts involve great operative difficulty, but various localities can juggle the instruments of circulation or the extent of circulation, to undermine the interests of, or set up blockades against, one another, so that it will still be impossible to control the relevant aggregates.

5) If contracts for task completion in the areas of total investment, total consumption funds, total credits, or total foreign exchange payments and receipts are awarded to the lower levels, not only will this result in an administrative control system marked by carving up contractual tasks at all levels, but the diverse standards in execution will make prices and exchange rates differ in different provinces, so that the development of horizontal economic links will be greatly hampered.

6) In the several areas mentioned above, because the central government lacks effective means of punitive regulation, it can only dismiss and prosecute the relevant personnel. Readjusting total values stipulated in the contracts for task completion not only fails to be an effective means of regulation, but will even intensify the conflicts between local and central governments.

If we sacrifice the unified markets in order to preserve the management of aggregates by different localities at different levels, this will lead to grave inefficiency, because 1) with duplicate construction, economies of scale cannot be attained; 2) regional differences will ultimately reinforce the system of local administrative control; 3) erecting interregional blockades will preclude the horizontal flow, and hence optimal combination, of production factors, so that it will be difficult for various localities to develop their relative strong points; and 4) it will be very difficult to build unified markets that are under indirect regulation and control and to effect the transition to a socialist commodity economy, which is our target model.

All that is mentioned above is related to a most important issue affecting the prosperity and survival of the commodity economy, namely, whether we want to build unified markets or permit the separatist segregation of markets. Some comrades believe that a unified market can only be gradually formed through the gradual expansion and integration of local markets. China's territory exceeds the total area of all West European countries; we should study whether we can take the path of the EEC countries, forming local markets before gradually extending them to become a national common market. It should be noted that the EEC countries have built the tradition of free trade through several hundred years of development of the market economy, and have created the present system through many years of discussions. There is considerable and thorough free trade within the EEC in nonfarm products, so that rational division of labor between specialized entities, and also economies of scale, are maintained. Because each country's original boundaries and customs offices at its borders remain unchanged, and each country has its own currency, it can

have its own policies regarding money supply, foreign exchange equilibrium, and taxation. Each country has a different price pattern owing to differences in indirect taxes, and a different inflation rate. When goods cross a national border, the exporting country will reimburse the domestic value added taxes on them, while the importing country will collect its own value added taxes. However, in old China, the category of commercial taxes called "li jin" which impeded the free circulation of commodities between various localities were abolished in 1931, when uniform taxes were introduced. Since the founding of the PRC, unity has reigned in the financial and economic arenas, and the separatist segregation of markets have never been permitted by law. In production, supply, and marketing, the key cities in China have established lines of contact which surpass their own localities, extending radially throughout the vast territories of China. Under this condition, taking the roundabout path of disintegrating the unified market, which has initially been formed, into many regional markets, and then gradually creating a unified national market, probably brings more disadvantages than advantages and means expending great efforts to get poor results.

Actually, unless various provinces in China are administratively separated as nations in the world, and unless customs offices are set up on their boundaries, and unless they have their own currencies, it will be impossible to use the methods adopted by the EEC. If the provinces are thus separated by provincial boundaries and different currencies, with customs offices on their boundaries, then, because a tradition of market economy and free trade is lacking, they will probably set up extensive blockades against one another and become closed systems. They will also practice protectionism, levy "tariffs" in disguised forms, and set up other nontariff barriers. Thus, without accumulating experience in developing the commodity economy over a dozen years or more, and without years of prolonged multilateral negotiations, it will be difficult for unified markets and a situation of free trade to spontaneously appear. Meanwhile, it would have to consequently sacrifice the rational division of labor and economies of scale, and would probably have to transfer the comparative advantages of domestic trade to foreigners, so that the great cause of strengthening our nation will be slowed down and adversely affected.

Removing trade barriers and forming unified markets constitute a matter of vital importance to developing the commodity economy. China has a vast territory and a large population; a disadvantage is difficulty in management, but an advantage is that the large size of the market is conducive to increasing the social division of labor and cooperation and gaining economies of scale. We must not lightly abandon this advantage.

III. A Multilevel Management System Based on the "Decentralized Taxation System"

Among various means of macroeconomic regulation and control, local fiscal policies are the most appropriate economic lever that local governments can rationally apply. In order to better develop local governments' enthusiasm, these governments should be assigned greater powers over formulating regional fiscal policies on the basis of a decentralized taxation system, so that a

multilevel management system can be formed. Under this system, local governments enjoy full powers in using local fiscal policies according to state laws and under the condition of local fiscal equilibrium. They can impose various kinds of local taxes and determine the corresponding tax rates, decide on reductions or exemptions of local taxes, prepare local budgets, grant subsidies, discount bills, and so on. (Currently, under the fiscal system of "each locality being responsible for the funds allocated to it by the central authorities," although a considerable proportion of each locality's funds is allocated funds, not much is actually at the locality's disposal.) In addition, the use of local fiscal policies is subject to the following rational constraints: 1) it is limited by the state's laws and regulatory policies; 2) it must really be in the local residents' interests; waste or mistakes in fiscal matters will cause local officials to be dismissed; and 3) taxation policies are subject to the constraint of competition from other provinces and cities--overly high local tax rates will cause an outflow of enterprises and qualified personnel and reduce local employment opportunities, so that local products will be at a disadvantage in competition. But practicing protection by excessive subsidies will inevitably reduce capital construction, so that the setting for investment loses attractiveness.

The decentralized taxation system is the basis of this multilevel management system because a well-designed decentralized taxation system can ensure or promote the following things: 1) clearcut limitations are established governing the localities' self-development, self-attainment of equilibrium, and self-restraint; there is no room for haggling with the central financial authorities, and the local authorities are not empowered to force the banks to grant loans; 2) owing to the way the taxes are categorized, a locality cannot draw resources from the central government or other localities to enrich itself; 3) overall macroeconomic equilibrium and optimization of the national industrial structure are harmonized with local interests; 4) local governments will have a genuine sense of responsibility toward local employment and welfare; and 5) the localities can prepare their own budgets which cover wider areas, and the central government need not intervene frequently. Obviously, under the current system whereby "each locality is responsible for the funds allocated to it by the central authorities," it is very difficult to achieve these five things.

On this basis, the local governments' functions and the means of executing these functions mainly include the following:

--enacting local laws under the constraint of national laws;

--formulating regional development programs and strategies which serve to provide guidance;

--through local financial budgeting, a locality can decide on investment in infrastructure, environmental improvement, and so on, or invest in certain industries; the rational setup of the decentralized taxation system will make the localities opt for appropriate lines and modes of investments;

--local legislative work and local financial budgeting will promote the development of local resources, conserve the natural environment, improve the investment setting, and develop science, education, cultural undertakings, public health, various service undertakings, and commerce;

--developing vocational education, increasing employment, and attracting qualified personnel;

--vigorously promoting and guiding the reform of local enterprises and participating in social supply management; this includes the management of various professions and reorganizing backward enterprises, and so on;

--using reductions and exemptions of local taxes and subsidies policies to pursue local income distribution policies (for example, policies concerning housing rents, subsidies on vegetables, helping the poor, rescuing backward enterprises, and so on);

--a locality can design and study reforms in local policies concerning land, housing rents, social security, and employment.

Because our localities have a greater capacity for handling financial resources and our local governments have more functions to perform, local governments in China will play a greater role in economic activities than their counterparts in other big countries in the West. But we must also strengthen our guidance and supervision of local governments' actions in the following ways to improve their functions:

--The NPC Standing Committee can set up special committees to see that localities do not go beyond their own jurisdiction in legislative work.

--A transition to a system whereby local governments exercise leadership over direct elections must be effected; supervision and restraint of the local leadership by citizens must be strengthened.

--The central government must cease to impose tasks concerning output value and taxation on local government, but will pay attention to helping the localities improve their investment setting and develop production: This will help promote local economic development, help increase local tax revenue, and also help promote national economic development (because if under the decentralized taxation system the combination of various categories of taxes is rational, tax revenue delivered to the central government will naturally increase).

--Local governments are strictly forbidden to levy tariffs or set up non-tariff barriers to obstruct the flow of production factors, including human or material factors of production (thus, enterprises can avoid irrational local taxes or restrictions to some extent by changing their place of registration through setting up plants elsewhere or through lateral integration). However, local industrial policies and development strategies can be realized through local fiscal subsidies.

—Local government officials are not empowered to appoint or dismiss enterprise managers, but have a definite say in examining qualifications.

—Governments at various levels are forbidden to intervene in the deposit-taking and lending business of banks.

The main principles governing the decentralized taxation system should include the following:

First, those taxes which are related to national industrial policies, like product taxes and tariffs, are classified as taxes leveled solely by the central government. The central financial authorities are also responsible for the reimbursement of taxes on exports. If circulation taxes are replaced by other taxes, mainly value-added taxes which have standard tax rates, some of these taxes can be levied by the localities because they do not discriminate against certain products.

Second, the majority of land taxes can be administered by the localities and cities. Increasing the construction of the local infrastructure will not only help attract investment (and hence help increase tax revenue and employment), but will also increase land value. These two benefits make this kind of construction more worthwhile than investment in profit-yielding projects.

Third, taxes closely related to the local governments' functions are classified as local taxes, so that the local governments' functions can be surely carried out with the backing of adequate financial resources, and the local financial authorities can also bring about local equilibrium and exercise self-restraint.

The following categories of taxes are proposed in light of the analysis above:

- 1) Local taxes: income taxes on enterprises in rural areas and towns, income taxes on enterprises run by private individuals, urban maintenance and construction taxes, local income taxes, local resources taxes, and business operation taxes;
- 2) Taxes levied by both the central government and the localities: resources taxes, land taxes (the revenue that they yield should largely go to the localities), business operation taxes, income taxes, property taxes, taxes on the use of vehicles and vessels, and value-added taxes (a relatively small proportion of these can be considered for administration by the localities);
- 3) Central government taxes: product taxes, tariffs, reimbursement for taxes on exports, consumption taxes, taxes on the state's fixed assets, and domestic circulation taxes levied on imports.

It should be pointed out here that though different taxation methods appear to vary only slightly, they affect various parties' interests-related incentives, and differ greatly in rectifying various parties' behavior, and hence their differences must not be ignored.

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PRC JOURNAL DISCUSSES ENTERPRISE BANKRUPTCY

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[Article by Han Yaoxian (7281 5069 0341): "A Discussion on the Opinions of the Creditors of a Bankrupt Enterprise"—edited by Liu Jichang (0491 0366 2490)]

[Text] In the eyes of society, a question of particular concern in the handling of the liabilities of bankrupt enterprises is the creditors. This writer participated in a meeting of the creditors of the bankrupt Shenyang Explosion Prevention Equipment Factory, and here I will briefly discuss the major questions of the creditors.

I. Is the Bankruptcy of the Enterprise the Bankrupting of the Creditors?

According to Shenyang City regulations with respect to bankrupt enterprises, after an enterprise goes bankrupt, its property will mainly be used to repay its debts. The enterprise will take no further economic responsibility for those debts which are not fully repaid. Regarding this, some creditors asked: "If an enterprise goes bankrupt and closes down, and it is unable to fully repay its debts, is it not bankrupting the creditors? How can it be said that creditors' interests are being protected?" From this, we can see the anxious mental state of the creditors when their interests are subject to assault. When an enterprise goes bankrupt, of course it is unable, or is basically unable, to repay its debts. If this were not so, it would not go bankrupt. Therefore, as far as the creditors of bankrupt enterprises are concerned, they are naturally going to suffer some economic losses, since the enterprise to which they extend credit have gone bankrupt.

The position is that if a bankrupt enterprise which is unable to repay its debts is not compelled into bankruptcy to repay them, and it goes blindly into areas in its debts, what meaning is there in the "creditors' rights" which are built on its inability to pay? It only results in the reduction of the actual value of "creditors' rights" as time goes by, until they exist only in name. In this sense, although when a bankrupt enterprise makes repayments on its debts, it cannot pay off the full amounts, the fact that it does repay a portion of its debt is a type of protection of the creditors' interests. The total debts of the Shenyang Explosion-Protection Equipment Factory reached 500,000 yuan and its assets were valued at about 230,000 yuan. According to the regulations, the repayment ratio to creditors was about 46

percent. The other 54 percent was, without a doubt, a loss to be sustained by the creditors. If the factory had not been declared bankrupt, the creditors would not even have received 46 percent back. If the handling of the enterprise's bankruptcy was done more appropriately, the repayment rate might have been higher and the creditors' interests would have been even more protected. Thus, our conclusion should be that the enterprise's bankruptcy is not bankrupting the creditors but is in fact a powerful safeguard of creditors' interests. The total debts of the Shenyang Explosion-Protection Equipment Factory reached 500,000 yuan and its assets were valued at about 230,000 yuan. According to the regulations, the repayment ratio to creditors was about 46 percent. The other 54 percent was, without a doubt, a loss to be sustained by the creditors. If the factory had not been declared bankrupt, the creditors would not even have received 46 percent back. If the handling of the enterprise's bankruptcy was done more appropriately, the repayment rate might have been higher and the creditors' interests would have been even more protected. Thus, our conclusion should be that the enterprise's bankruptcy is not bankrupting the creditors but is in fact a powerful safeguard of creditors' interests.

II. Should Not the Position of the Creditors of a Bankrupt Enterprise Be Equal?

The creditors of a bankrupt enterprise include the state, collectives and individuals. The Shenyang Explosion-Prevention Equipment Factory owed the bank over 20,000 yuan. It owed over 160,000 yuan to whole-people ownership institutional and enterprise units and it owed 300,000 yuan to collective ownership enterprises and individuals. Should the rights of these creditors have equal positions? In the creditors' meeting, there were different ideas on this. Some people noted: "The bank is run by the state and it represents the state's interests. The bankruptcy of an enterprise must not result in the state suffering losses. Thus, all the debts due to the banks must be repaid. In terms of the position of creditors' rights, the state cannot be considered equal to collectives and individuals." The supporters of this idea seem to consider that the state cannot suffer losses when an enterprise goes bankrupt and if the state suffers losses, it would be the greatest outrage. The question is, can it be expected that the collective and individual creditors alone bear the losses brought on by the bankruptcy? We do not think so. This view is based on the fact that the relationship between the creditors and the debtor is a credit relationship and the debtor has the responsibility of economic undertakings to all creditors. The creditors likewise enjoy equal rights in requiring the debtor to repay its debts. In situations where an enterprise goes bankrupt and is unable to fully repay its debts, it means that the state must suffer losses. The proposal that when a bankrupt enterprise's debts to creditors are being repaid, the interests of the state must be "safeguarded" as untenable. This is because long before an enterprise is officially declared bankrupt, the state has already suffered losses. The timely declaration of bankruptcy and making necessary arrangements is precisely for the purpose of avoiding greater losses for the state. As to some people's suggestion that, because according to financial department's regulations, when credit losses reach a certain amount, the person concerned is investigated and subject to criminal responsibility, the state bank cannot be considered equal with other creditors, this is even more improper. Correctly understanding and implementing this

regulation's course of action is a way to ensure that before banks issue credit, they pay attention to the ability of the user to repay the loan.

III. Should "A Son's Debts Be Repaid by His Father" When an Enterprise Goes Bankrupt?

After an enterprise is declared bankrupt, all of the creditors hope to receive as much in repayment as possible. However, the fact is, the enterprise is bankrupt and it is difficult to satisfy the hopes of the creditors. For this reason, some creditors proposed that "when an enterprise goes bankrupt, and it has difficulties repaying its debts alone, its responsible department should be required to repay the debts." They held: It is an unalterable principle that debts must be repaid. In the past, "a father's debts were repaid by his son: so now we should have "a son's debts being repaid by the father." Before an enterprise goes bankrupt, the responsible department of the enterprise is both responsible for the administrative leadership work with respect to the enterprise and also obtains benefits from the enterprise (for example, through management fees or other types of economic demands). Thus, these people believe that when an enterprise goes bankrupt and closes down, the debts it owes should become the responsibility of the responsible department. We believe that this view has certain rational factors, but is not entirely appropriate.

In general, enterprises' responsible departments are responsible for whether the operations of their subordinate enterprises are good or bad. Thus, the responsible departments of bankrupt enterprises should draw the necessary lessons from enterprise bankruptcies and thereby overcome and reduce their number. The bankruptcy regulations of Shanyang City clearly stipulate that the responsibility for an enterprise's bankruptcy should be investigated and affixed to the responsible department. Doing things in this way will be of benefit in overcoming bureaucracy in leading organs and inappropriate interference in enterprises. It is excusable that creditors also proceed from their belief that the responsible department has an unshirkable responsibility for a bankrupt enterprise and they want the department to take on the enterprises' debt repayments responsibilities. However, the major reason for an enterprise's bankruptcy is self-contained. This is also widely recognized. As a relatively independent economic entity, the enterprise obtains benefits from its operational successes and should also bear the risks of its operational failures. Namely, when an enterprise goes bankrupt, it should naturally shoulder its debts. We should further recognize that as the reforms gradually progress, the enterprises' decision-making power is increasing, while government and enterprise functions are being separated. This means that enterprises' responsible departments will no longer be able to interfere in the enterprises' day-to-day operational activities as before, and this shows that we cannot treat enterprises and responsible departments as the same thing. In terms of the law, enterprises and responsible departments are, when it comes down to it, independent legal persons. We can see that requiring responsible departments to repay the debts of its bankrupt enterprises is not entirely rational.

Neither is it appropriate for responsible departments to pay off debts with management fees they receive. We know that in accordance with policy

stipulations, enterprises' responsible departments receive a certain amount of management fees or other funds. These are quite normal and allowable, and should be paid by enterprises. Once these funds have been handed over, they have been used and there is no basis on which they can be used to repay the enterprise's debts. As to the claim that, since enterprises handover profits to responsible departments the enterprise has the right to demand them, since all enterprises pay taxes according to regulation, would not it be the case that when enterprises go bankrupt, all of their debts should be taken on by the state? This idea is clearly incorrect. In an enterprise's operational activities, it has an obligation to pay taxes or to provide funds in accordance with policy stipulations. This is a necessary deduction before there is distribution to the laborers of the enterprise. These funds are necessary for the state to provide common benefits to the whole society. This includes social subsidies and necessary conditions provided to the enterprises themselves. Thus we cannot, on the pretext that the enterprise's responsible department has taken the profits created by the enterprise, require that the responsible department take on the repayment of the bankrupt enterprise's debts.

IV. Other Ideas of Bankrupt Enterprise's Creditors

In the handling of a bankrupt enterprise, the issue of the creditors is extremely important. In handling the bankruptcy of the Shenyang Explosion-Prevention Equipment Factory, because full and detailed preparatory work was done and the policies for handling the credit/liability relationship were quite safe, the repayment of debts was done quite smoothly and the majority of the creditors were satisfied or basically satisfied, and their problems were quite well resolved. However, there are still some problems worth pondering. Some creditors from other provinces and cities noted: "Shenyang City's bankruptcy regulations are regional administrative regulations and they are not legally binding on us. What happens if we do not agree to accept only partial repayment of the debts?" This shows that the promulgation as quickly as possible, of a national "Enterprise Bankruptcy Law" is a real and pressing need. A Shandong creditor also noted this instance: The Shenyang Explosion-Prevention Equipment Factory owed them over 10,000 yuan and the person dealing with this from their factory was nearly 60 years old. Since, over several years, the Explosion-Prevention Equipment Factory had been unable to repay its debt, this staff member stopped performing his normal duties and put his efforts into obtaining repayment. He went to Shenyang several times without result. After he went to Shenyang the last time, just after returning to Shandong, he died of mental and physical stress. This incident shows us that when an enterprise goes bankrupt, apart from economic losses incurred by the state and other units, it can spark a chain reaction. This requires that at the same time as we consider the "Bankruptcy Law," we must proceed from the angle of the completeness and suitability of the law, and in handling related problems also provide clear policy stipulations.

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NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON INTERESTS, STRUCTURE, REFORM

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[Article by Gao Qian (7559 7505): "Interests, Structure, and Reform"]

[Text] What are the relationships between interests, structure, and reform and between them and the development of a socialist society? This is an issue that warrants further research and exploration. Correctly bringing their relationships to light will further help us understand the importance of socialist reforms.

Marxism maintains that any society must, first and foremost, meet the needs of people's material life and then of their spiritual life, and socialist society is also no exception. Therefore, in studying the motive force of a socialist society, above all else, it is necessary to conscientiously study and explore the "needs," a term which falls into the category of historical materialism. In the past, under the influence of "leftist" ideology, the needs and interests of the masses of people were excluded from the category of historical materialism and socialism and, thus, people failed to explain the ultimate motive force and objective of socialist development. Influenced by "leftist" ideology, on the question of the guiding thinking in socialist construction, we concentrated on high targets and high output in production to the neglect of meeting the needs of the people and, as a consequence, our socialist economy yielded poor results and less substantial benefits. On the question of the change of productive forces, we blindly pursued the form of "large in scale and collective in nature" and "transition through poverty," regardless of the level of development of our productive forces, and obliterated the difference in and clash and relationship of interests between the collectives and the individuals. While their fundamental interests are identical, the ossified structural pattern remained unreformed for quite some time or was reformed at will along the direction of "leftism." Neglecting or obliterating the needs and interests of the masses of people, negating interest clashes, and not paying attention to the readjustment of the relationship of interests are just the roots of the previous socialist pattern's lack of vitality.

Through reform, people have come to realize that needs are a fundamental element of historical materialism and man's needs take the form of interests in the relations of production. Productive forces are the ultimate motive force of social development. The productive forces are the ultimate motive

force of socialist development, and the internal causes moving the productive forces constantly ahead are the needs and interests of the people. Hence, there is both the question of the needs and interests of the state and the collectives and that of the needs and interests of the individuals. In the final analysis, socialist reforms are aimed at nothing but readjusting people's relationship of interests to achieve a unity in the interests of the state, the collectives, and the individuals, including economic, political, and cultural interests.

However, the readjustment of the relationship of interests needs a certain structural system as a guarantee. Previously, we failed to understand the importance of a structural system and more often than not, we confused structure with the fundamental system and did not dare to make inquiries about the reform of structure. In fact, structure is the existing form of the fundamental system. There is no system that does not assume a certain structural form, and there is no unalterable and universally applicable structural pattern on earth. If the socialist system is the grand total of the socialist economic, political, and ideological relationships of all socialist countries, the socialist structure is the concrete formation of expression of the economic, political, and ideological relationships of a certain socialist country in a certain period. In the past, we had an inadequate understanding of the fact that structure is a system of mechanisms for regulating the relationship between the productive forces, the relations of production, and the superstructure. The big system of socialist society consists of three subsystems, namely, the productive forces, the relations of production, and the superstructure. The relationship between them forms two pairs of basic constructions. The movement of basic contradictions is the fundamental motive force of the development of a socialist society, with the productive forces being the ultimate motive force. What needs thorough study now is that through what mechanisms the functions and reaction of the three subsystems embraced in the big system of socialist society are realized. In reality, as an element of the socialist social structure, the socialist structural system is an intermediary between the three subsystems of the productive forces, the relations of production, and the superstructure. It plays the role of information and energy exchange and is a mechanism highly adaptable to changing conditions. On the one hand, it must be able to flexibly reflect the changes of the productive forces system (through its own regulation) and to transmit the information and energy of the productive forces system to the economic base and superstructure systems and on the other, it must be able to feed the information and energy of the economic base and superstructure systems back to the productive forces system and to provide it with conditions for development. In the structure of socialist society, only when a structural system of this kind is set up can the superiority of the socialist system be brought into full play and people's needs and interests be better satisfied. Theoretically, this understanding can be summed up into one sentence, that is, it is necessary to make a clear summary of the concentrated expression of the basic contradictions in socialist society.

The arguments that expound the basic contradictions from the point of view of the relationship between production and demand and that bring to light the basic contradictions exclusively from the point of view of the internal

sectors of production relations have been discarded by a growing number of scholars. Now people's analysis of the contradiction between the productive forces and the relations of production is getting increasingly intensive, and more and more efforts are focused on analyzing the contradiction between the concrete forms of production relations and the methods to achieve the forms (namely, the economic structure) on the one hand and the continuous development of productive forces on the other. This means that structure—this intermediary link—has been placed in a prominent position and the key to solving the contradictions has been found. However, this practice has an inadequacy, that is, the focus of attention is confined to the economic structure to the neglect of other fields of endeavor.

With some points to add, we will have this exposition established: This basic contradictions in socialist society are those between the productive forces and the relations of production and between the economic base and the superstructure. The basic contradictions find expression in concentrated way in the contradiction between the continuous development of productive forces and the current state and functions of the real structural system (including economic, political, cultural, and social structures) and in regard to the relations between man and man, this contradiction is manifested in the contradiction between the identity and difference of the fundamental interests of the state, the collectives, and the individuals. Now that the basic contradictions in socialist society are expressed in a concentrated way and those between the continuous development of the production forces and the real structural system and between the identity and difference of the fundamental interests of all sections of the people, an overall structural reform becomes a direct motive force for solving the basic contradictions and developing socialist society.

Socialist society is in essence a coordinating system with self-regulatory mechanisms. Nevertheless, this does not necessarily mean that self-regulatory mechanisms will certainly take shape and be flawless the moment the socialist system is established. To turn the possibility of a coordinated development of socialist society into a living reality, it is necessary to rely on people's active practice to initiate and steadily perfect regulatory mechanisms, of which structure is of utmost importance. The task and function of socialist reforms are precisely to continuously get rid of the old structure, which is no longer adaptable, and to establish a new suitable system so that the structural system will fully play its role as an intermediary in regulating the productive forces, the relations of production, and the superstructure; the basic contradictions in socialist society will be continually resolved; and the whole socialist society will further develop.

Socialist reforms are a new type of revolution, with structural reform as its content. Structural reform is aimed at readjusting people's relationship of interests, inspiring people to pursue needs and interests, turning this

pursuit into a motive force to make contributions to the collectives and society and to promote the coordinated development of socialist society. In this way, the reforms will become a "huge lever" and the direct motive force for propelling socialist society ahead. It is precisely in this sense that we have called the reform "a second revolution."

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NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON OWNERSHIP, RIGHT OF OPERATION

HK041325 Beijing GUANGMING RIBAO in Chinese 24 Jan 87 p 3

[Article by Ma Qingquan (7456 1987 3123): "My Humble Opinions on Reforming Ownership of Enterprises Owned by the Whole People"]

[Text] Our recent economic documents mostly expound the reform in the ownership system of enterprises owned by the whole people from the point of view of separating ownership from right of operation. I believe that this is an incorrect method. First, ownership and right of operation are two separate chains with complicated connotations. They have their own respective fields to cover. Therefore, the view on a simple separation of ownership from right of operation is vague and ambiguous. Furthermore, if we say that right of operation is derived from ownership, this means we admit that the proprietary right of the assets of enterprises belongs to the state, and that the state has the final say in policy decisions of enterprises. Consequently, it is impossible for enterprises to become independent producers of commodities. There, the reform in the ownership of enterprises owned by the whole people should be based on the intrinsic duality of the ownership [gu you de liang chong suo you quan 0942 2589 4104 0357 6850 2076 2589 2938] and the flexible and independent nature of the commodity economy. In other words, we should consider the reform in the ownership of enterprises owned by the whole people from the viewpoint of the proprietary right of the value-formation of commodities (shang pin jia zhi xing tai suo you quan 0794 0756 0116 0237 1748 1966 2076 2589 2938) and the proprietary right of material object-formation [shi wu xing tai suo you quan 1395 3670 1748 1966 2076 2589 2938] of commodities (use value).

The enterprise is a basic unit of the compound social productive forces in the commodity economy. The general environment of the commodity economy has determined that all production input of an enterprise is made for the sake of commodities. Therefore, all assets of enterprises have two kinds of ownership, namely, the ownership of the value of assets, and the ownership of the assets in material objects. Under certain conditions, these two kinds of ownership may be separated, and follow their own independent course. As far as this point is concerned, both socialist and capitalist enterprises are the same.

A comprehensive ownership includes proprietary right, right to possess, right to control, right to use and right to derive benefits. This is applicable to

both ownership of the value of assets of enterprises and the ownership of the material objects of enterprises. The ownership of the value of assets of enterprises means the right of the enterprises to handle the value of assets. This ownership vests the owners of the value with the right to decide the flow of capital. This is the right to own the value, the right to control the value and the right to use the value, which are connected with the proprietary right of value. The proprietary right of value is eventually reflected in the right to derive benefits from value. This means the right to gain income from interest (participation in distribution). The ownership of the assets of enterprises in material objects means the right of enterprises to own the assets in material objects. The right cannot be transferred to others, unless the enterprises concerned declare bankruptcy, or they transfer the right voluntarily. That which is connected with ownership of assets in material objects is the right to operate assets in material objects, namely the right of enterprises to own, control, and use the main elements of production. The final right to derive benefit means the right of enterprises to make profits through their business activities. It is obvious that the proprietary right of the value of assets and the right to operate as a group, and the proprietary right of assets in objective materials and the right to operate as another group, have formed two separate independent chains which are closely connected with each other. Therefore, it is actually a very vague and ambiguous view to separate ownership from right to operate in an oversimplified way.

The movement of the two separate chains of ownership and right to operate may be overlapping, or completely separated. When they are separated, the operation of the proprietary right of the value of assets and the right to operate value will progress independently beyond the reach of the movement of the proprietary right of material objects, and the right to operate material objects. The transfer of the proprietary right of the value of assets is carried out outside the enterprises, without any direct influence over the day-to-day operation and activities of enterprises. In a high stage of development, the commodity economy has created a historical form of ownership--the stock system. This is a good form created by proprietary right of the value of assets and the proprietary right of material objects, which is characterized by their interrelationship and interdependence. Since the proprietary right of assets in material objects belongs to enterprises, operators can fully enjoy their independent right of operation.

The reform in the ownership of our country's enterprises owned by the whole people should be carried out along this line. The proprietary right of the value of assets of enterprises owned by the whole people belongs to the state, whereas the proprietary right of the assets in material objects belongs to enterprises. The right to possess, control and use value, which is derived from proprietary right of the value of assets, is exercised through special mechanisms of capital market and stock market. The right to possess, control and use the main elements of production, which is derived from the proprietary right of the assets in material objects, is exercised through the production and operation of enterprises. The economic form of the right to derive benefit, which is requested by proprietary right of the value of assets, is reflected in interest and dividends. The economic form of enterprises' right to derive benefit, which is requested by proprietary right of the assets in

material objects, is reflected in the profits of enterprises. In such a way, the operation of the two kinds of proprietary rights has become an interdependent double track, which enables enterprises to retain the ownership by the whole people, and become independent commodity producers. This will completely change the weak position of enterprises, and lay a relevant microscopic foundation for the macroscopic control which is an indirect form of the national economy.

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NATIONAL AFFAIRS, POLICY

GUANGMING RIBAO ON SOCIALIST STOCK ECONOMY

HK061022 Beijing GUANGMING RIBAO in Chinese 24 Jan 87 p 3

[Article by Jin Wen [6855 3080]: "On the Socialist Shareholding Economy"]

[Text] The stock system used to be equated to capitalism for several decades, and now it is equated to public ownership instead. In actual fact, the stock system and the ownership are two entirely different things. The former, which is related to the composition of capital (or assets) of enterprises, is something concerning the structure, while the latter refers to the ownership of capital (or assets) of enterprises. As a system in contrast to the sole proprietorship, the stock system has the following special characteristics: the enterprise's capital is raised in the form of stock, share certificates are issued to shareholders, and dividends and extra dividends are distributed according to the proportion of shares; in addition, share certificates are negotiable as a kind of commodity. As a structure to accommodate a large volume of enterprise assets with a high degree of flexibility, the stock system can be practiced both under the public and private ownership. Large enterprises can practice the stock system, and medium- and small-sized enterprises can also do the same. Chinese enterprises can practice the stock system, so do joint ventures run with Chinese and foreign investment.

The Conditions for the Emergence of the Stock System in Our Country

The stock system is a natural product of the commodity economy. It arose from the need for fund raising and sprouted from the entrepreneurs' practice of forming partnerships and distributing dividends. In the wake of the issuance of share certificates and the emergence of the stock market, a real stock economy finally took shape. Thanks to the concentration of capital arising from centralized production as well as to competition and merger as the motive forces, the stock economy has boomed on an unprecedentedly large scale. Generally speaking, the development of the stock system needs the same basic conditions in both capitalist and socialist societies. China's productive forces characterized by socialized large scale production and the fairly developed commodity economy are the prerequisites for the emergence of the stock system in the country.

At present, as the state has changed the old practice of uncompensated appropriation of funds to enterprises, there is a pressing need for fund raising. In some places, enterprises have been established with funds raised

among staff members or within the collective, and the shortage of funds faced by enterprises has been solved with funds raised among staff members. These have become more and more common practices. Investing money or distributing dividends according to a fixed proportion, or paying off the principal with or without interest, all these practices are symptoms of the sprouting stock economy. These practices, if modified under correct guidance, can give rise to joint-stock enterprises. This is the first condition for the growth of the stock economy in our country.

Since the state has changed the system of direct control and vertical administration for enterprises and has recognized enterprises' self-interests, the lateral economic ties and association between enterprises have been strengthened. According to the law of value and due to the incentive arising from average or extra profit rate, the flow of capital between different trades, between different departments, and between different areas, as well as mutual investment between different enterprises, will become an inevitable trend. On the other hand, through issuance, sale, and purchase of stocks, the combination and flow of funds can be effected more easily under the stock system. This is the second condition for the growth of the stock economy in our country.

The competition between enterprises and the development of science and technology will inevitably encourage the tendency of centralized production and concentration of capital. On the one hand, some medium- and small-sized enterprises need to rely on large enterprises; on the other hand, some large enterprises intending to consolidate their position of strength need to merge, infiltrate, or control medium- and small-sized enterprises through investment of money. This is the third condition for the growth of the stock economy in our country.

In enterprises under public ownership, staff members may feel that the publicly-owned means of production are something divorced from them. The main cause for this is the lack of a relatively stable economic mechanism to attract staff members to buy shares of enterprises. With the help of such a mechanism, the staff's fate will be closely linked with that of the enterprise. Moreover, from the economic point of view alone, the enterprise needs its staff members to buy shares and help ease the shortage of funds, while staff members can earn dividends and extra dividends which will raise their personal income. This is the fourth condition for the growth of the stock economy in our country.

The Stock System's Influence on China's Economic Structure and Distribution System

Whether the stock economy will affect the socialist nature of our country's ownership system is an issue of great concern. As we have mentioned above, since it concerns joint-stock enterprises and stocks are negotiable, will our society be turned into a capitalist one? The answer is definitely no. Since the socialist state is to exercise overall control over the distribution of national income, and the urban and rural residents' share in the national income distribution is subject to some restrictions, individuals' capacity to buy shares with their savings is rather limited. Even if all the existing

public assets are sold in stocks and individuals are allowed to buy as many stocks as they can, private shares will still account for only a very small portion as compared with the shares held by the state. Therefore the state shares' dominant position will remain unchallenged. As for introduced foreign investments, our socialist state definitely can keep them under firm control and will never let them replace the state shares as the dominant force. As for those large enterprises which are the lifeblood of the economy of the state, the state is fully entitled to and absolutely can keep them under control and preserve their socialist ownership nature and socialist operation orientation.

Then, is the practice of distributing dividends according to the proportion of shares an expression of the principle of "distribution according to capital?" If the answer is yes, then is this system contradictory to the socialist system which pursues the principle of distribution according to work?

Distribution of dividends according to the proportion of shares is exactly "distribution according to capital" or, in substance, the possession of surplus labor. This is a question that cannot be sidestepped. Since the amount of extra dividends earned by a share holder does not vary according to the quantity and quality of the living labor he has contributed but to the amount of capital (that is, shares) he has invested, it is unreasonable to classify the system of distribution of dividends according to the amount of shares as a part of the new structure of "distribution according to work."

Now the question is whether the practice of "distribution according to capital" can be equated to the capitalist form of distribution. Capitalist distribution, which is accomplished in the form of "distribution according to capital," has two intrinsic features:

First, it is a large-scale possession of surplus; second, it is a purely private possession and properties are at the private owners' disposal. The case is not completely the same in joint-stock enterprises in our country. In general, the system of "distribution according to capital" assumes the following four forms: First, staff members of the enterprise buy shares and receive dividends according to the amount of their shares. The surplus value in the form of dividends is created by staff members themselves and the acquisition of dividends means the recovery of the fruit of their own labor. This is substantially different from the capitalist form of distribution. Second, the state or the collective buy shares of certain enterprises. In this case, the acquisition of extra dividends means possession of others' surplus labor, but the profits thus obtained are not at any individual's disposal but belong to the state or the collective and will be used to promote the welfare of all or part of the laboring people. This is different from the capitalist form of distribution too.

Third, the enterprise sells its shares to the public, the acquisition of the extra dividends arising from these shares is a possession of the fruit of others' labor, and these dividends are at individuals' disposal. Generally speaking, however, these kinds of shareholders earn their living with their own labor and the extra dividends arising from their stocks are merely an unstable supplement to their regular income. These shareholders are not

capitalists, and their obtaining dividends is different from the capitalist form of distribution.

Fourth, the enterprise sells shares to overseas capitalist who are to receive dividends according to the amount of their shares and thus possess a large amount of others' labor. So the profits thus obtained are at individual capitalists' disposal. This is a purely capitalist form of distribution.

By and large, the first case, in which staff members of the enterprise buy shares and receive dividends, is basically of the nature of collective economy. In the second case, the extra dividends arising from the shares held by the state are profits turned over by the enterprise to the state in a disguised form. Both the first and second cases are of a socialist nature. The third case, in which individual citizens buy shares and receive dividends, is of the nature of the small private owner economy. Only the fourth case is of a capitalist nature. However, in our country, as the state keeps the decision-making power regarding the distribution of national income, it definitely can set an appropriate ratio between the portion of the total value created by the workers to be distributed according to work and that to be distributed according to capital. So, the investors' initiative can be brought into play, with the laborers' interests safeguarded.

Conditions Regulating the Development of Joint-Stock Enterprises

The stock system should be developing in the wake of the growth of the commodity economy in our country. But the development speed and prospects of the commodity economy are subject to restriction by the following conditions.

First, the stock purchasing power and the enterprise's profit rate on capital. The staff's low income level and the enterprise's low profit retention rate have directly limited the stock purchasing power. To foster the stock system, we must, in the first place, raise the stock purchasing power and, next, make the stocks more attractive. One who buys shares may make profits but has to run risks at the same time. Only when the sum of dividends and extra dividends is much higher than the deposit interest rate offered by the bank will people feel interested in buying stocks. Therefore, the development of the stock system will be directly proportional to the improvement of the enterprise's management and profit rate on capital.

Second, the enterprise's management standard and the reform of its personnel system. The performance of the enterprise management will determine the prospects of the enterprise and the share holders' immediate profits. Therefore enterprises practicing the stock system must improve their management standard. Otherwise it will be impossible to ensure the smooth operation of the stock system. For this reason, shareholders will demand that they have the choice of the responsible person of the enterprise. That means the current personnel management system must be reformed and a board of directors formed by shareholders is to directly take care of the recruitment of managers. So long as this problem is unsolved, people will remain uneasy and will not show a great interest in buying shares.

Third, enterprise's self decision-making power to invest in each other. The stock purchasing power of urban and rural residents in our country is rather limited, only some enterprises have greater stock purchasing power. In general, only enterprises can carry out transfer of funds between trades, between departments, and between areas. In addition, it will be very difficult for enterprises to smoothly carry out transfer of funds if they are subject to the interference by the departments in charge and local party and government leaders. Therefore, it is necessary to break through the present separatism, do away with all separatist policies, and abolish all obstacles to mutual investment between different enterprises. How well this problem is solved will have direct influence on the development of the stock system.

Fourth, the establishment of a stock market. The stock system cannot possibly be developed without a stock market. As a high degree of transferability of stocks is the intrinsic feature and advantage of the stock system, there is a need for the establishment of a stock market.

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NATIONAL AFFAIRS, POLICY

JINJI RIBAO ON ENTERPRISE REFORM PLAN

HK270223 Beijing JINGJI RIBAO in Chinese 2 Jan 87 p 1

[Commentator's article: "Deepening the Reform Inside Enterprises"]

[Text] According to the demand set on the task of economic structural reform during the period of the Seventh 5-Year Plan, we should deepen the reform of enterprises, and make a greater step in increasing the vitality of enterprises, large and medium-size enterprises in particular.

The work of carrying out reform should be carried out from both inside and outside the enterprises. It is important to continue to improve external conditions of enterprises. However, comparatively speaking, internal reform of enterprises hold a more prominent position. It is because delegating power by government departments and expanding the power of enterprises are the two sides of the coin. On the one hand, delegating power will give impetus to the reform inside enterprises, and bring relevant changes to their internal mechanism, including decisionmaking power, and the leadership system. On the other hand, reform inside enterprises will eventually generate the new structure and pattern of responsibility, power and benefits inside and outside enterprises. All this will urge the departments concerned to further delegate power, and enterprises at a lower level will be encouraged to promptly take and regularize the power so that it will operate and play its role in a normal way in accord with the requirement of commodity production. Therefore, while continuing to exercise the decisionmaking power of enterprises, our entrepreneurs should look inward, and do well in carrying out the reform in their own enterprises. This is the most important link in deepening the reform in enterprises.

To deepen the reform inside enterprises, our first task is to separate the power of ownership from the power of operation. The defects in our existing economic system do not lie in ownership power, but in our imperfect power of operation. Opening up the power of operation is the most important. Small enterprises under ownership by the people may actively try out leasing and contracting out operations. Some medium-size enterprises under ownership by the people, which lose money or make few profits, may also do so in a selective way. The large and medium-size enterprises under ownership by the people should pursue a multiform responsibility system in business operation. Our second task is to speed up the reform in the leadership system of enterprises, and implement the factory director (manager) responsibility

system in an all-round way so that factory directors and managers will be wholly responsible for the work in their enterprises. The enterprises, which pursue the factory directors and managers will be wholly responsible for the work in their enterprises. The enterprises, which pursue the factory director responsibility system, should, at the same time, pursue a responsibility system covering the term of office, and targets of factory directors. Judging from the present situation, we know that the benefits of the operators of enterprises do not correspond with their risk, and that their responsibility does not fit in with their rights, and that their appointment does not suit their positions. All these problems deserve our attention, and must be solved. If operators of enterprises have done well in the overall accomplishment of the annual tasks, their personal incomes must be correspondingly increased. If they fail to do so, their personal incomes must be reduced. The third task is to improve enterprises' distribution system for wages and bonuses so that they can completely abolish egalitarianism characterized by the practice of "eating out of the same big pot."

We should try our best to arouse the enthusiasm of workers and enterprises in accordance with the "principle of material interests." In particular, the specific form and methods for distributing wages and bonuses inside enterprises should be decided by the enterprises themselves. Generally speaking, a certain proportion of money should be taken out of the fixed wages and be distributed to workers in addition to bonuses in accordance with the principle of distribution according to work through the implementation of the economic responsibility system. The fourth task is on the basis of developing horizontal economic cooperation, enterprises may, in accordance with the principle of voluntariness and mutual benefit, establish their enterprise groups mainly composed of large-scale and key enterprises, and enterprises which manufacture famous-brand products. To promote competition, no monopoly of business is allowed in the same trade.

The above-mentioned points are important contents of the reform inside enterprises. Here, the two most important things to do are to delegate power of operation, and implement in an all-round way the factory director (manager) responsibility system. Our entrepreneurs must, first of all, fully pay attention to these two things.

Of course, asking entrepreneurs to pay attention to deepening the reform inside enterprises does not mean that these problems can be solved by relying on the efforts of entrepreneurs alone. Leaders at all levels and the departments concerned must visualize the urgency, and have the consciousness of deepening the reform inside enterprises. They must take the initiative to delegate power and provide service. Resolute measures must be taken to return to enterprises power which originally belonged to them.

With regard to a series of relevant documents, governments at all levels must organize the departments concerned to implement them one by one. How they implement these documents should be taken as an important criterion for examining and assessing the achievements of the leaders and departments concerned. We must also pay attention to avoiding the recurrence of the practice of exceeding one's functions and meddling in other affairs. Efforts must be made to avoid turning enterprise groups into an administrative

companies. In the course of delegating power of operation to enterprises, we must ensure that under the prerequisite of observing the rules and regulations of the state, renters and contractors must have their full decisionmaking power, and the benefits they obtain in accordance with the contracts must be protected. Operators' interests must be ensured, and we should see to it that factory directors (managers) can concentrate their efforts on organizing production and operation. Activities such as investigations in enterprises, public appraisal, meetings and so on must be minimized. We must support enterprises to streamline their administrative organs. All departments are not allowed to force enterprises to set up relevant organs, or impose their decision on the authorized size of the organs, and number of workers and staff members. In the new year, the state will take positive and important measures to invigorate enterprises. The measures will include continuing to reduce or exempt regulating tax for light and textile enterprises, and large and medium-size enterprises which are engaged in key technical innovation projects, depreciation in industrial enterprises in light of different categories, improving the methods for awarding units which have done well in management of energy and raw and processed materials, solving the problem of "punishing the progressives" and continuing to reduce the number of mandatory plans for enterprises, and so on. The implementation of these measures needs the efforts of the departments concerned. Macroscopic guidance must be strengthened and improved in order to significantly change the functions of government departments. Such changes are important conditions for further invigorating enterprises. The degree of the changes will also determine the degree of depth of the reform in the enterprises.

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NATIONAL AFFAIRS, POLICY

JINGJI RIBAO ON ECONOMIC WORK CONFERENCE SPEECH

HK130830 Beijing JINGJI RIBAO in Chinese 27 Jan 87 pp 1, 3

["Excerpts" of speech by Lu Dong, minister in charge of the State Economic Commission, at the National Economic Work Conference—date and place not given]

[Text] I A Sketch of the 1986 Economic Development Situation

It was the first year of the "Seventh 5-Year" Plan in 1986. The overall situation during this year was good. Agriculture developed steadily, industry steadily increased, the commodity supply situation in the market was better than in previous years, foreign economic relations and trade and technology exchange was continuously expanded, investment in capital construction covered by the plan was basically brought under control, people's living standards continuously improved, and urban and rural residents' savings deposits increased by a relatively wide margin.

Judging from economic development this year, there were several characteristics as follows:

1. Development of the national economy gradually became normal. In view of the overheated economy situation which emerged in the second half of 1984 and in 1985, all places and departments seriously implemented the principle of the CPC Central Committee and State Council on strengthening and improving macro economic control; adopted suitable measures, including limiting money supply growth to control the use of foreign exchange, bringing the scale of capital construction under control for two years, and exercising control over the increase in consumption funds to reduce the excessively high rate; and, on the basis of stressing economic results, maintained a suitable rate of increase and avoided the passive consequences brought about by "hastily putting on the brakes." The contradiction between total social demand and supply was mitigated. Of course, we must clearly see that some unstable factors still exist in economic life and we must by no means lower our guard.

2. In the course of implementing the principle of consolidation, digestion, replenishment, and improvement, new progress was made in urban economic structure reform. It showed in the following: 1) According to the principle of separating proprietary rights from rights of operation, there were new developments in the operation pilot project including operating enterprises by

contract or lease. 2) The right of distributing wages and bonuses within enterprises was delegated to enterprises, thus properly solving problems brought about by illegally using bonuses at the beginning of the year by way of wages, and promoting the implementation and development of the economic responsibility system. 3) The "three regulations" and "supplementary circular" on enterprise leadership structure reform, which were promulgated by the CPC Central Committee and State council, were implemented. Understanding of the implementation of the factory director responsibility system was unified. It was made clear that a factory director was the representative of an enterprise corporate body, was held fully responsible for the enterprise, and was in the central position in the enterprise. 4) The four provisional regulations on labor system reform were enforced and a big step was made in improving enterprise and labor management. 5) New experience was acquired in strengthening and improving macro economic control. The management of credit, planning, prices, revenue, and tax collection should be carried out with invigorating enterprises as the foundation. Only by so doing can we achieve the aim of macro economic control.

3. Lateral economic ties developed in depth and width. As all localities and departments seriously enforced "a number of regulations on further promoting lateral economic ties" by the State Council, the scope of lateral economic ties among enterprises became larger and the types increased in number. A large number of enterprise groups emerged. This was of important significance in promoting the readjustment of the organization and structure of enterprises, the local production structure, and the national economic structure, and in breaking the old system of barriers between higher and lower levels, and between different departments or regions.

4. Product mix was readjusted. In the wake of deepgoing development of reform and of the socialist commodity economy, it gradually became more pronounced that market mechanism played its role in regulating industrial production. Production of products in short supply which were needed by the market increased by a relatively wide margin, and production of products in excess supply was brought under control. These were real economic results. More and more enterprises came to understand that market demand was the basic starting point for organizing production and products that had a ready market determined the existence and development of enterprises. However, the present product mix still does not completely suit the change in the composition of consumer goods. Contradiction is relatively prominent, and continuous arduous efforts should be made.

5. A new step was taken in enterprise technological progress. The technological transformation of 585 large and medium-sized enterprises included in the plan, light and textile industrial enterprises, and machinery and electrical appliance export enterprises which earned foreign exchange, progressed relatively quickly. The system of guaranteeing product quality took initial shape, and the use and absorption of imported technology and the work of making domestic products started gradually. The 3,000 advanced technological items imported were gradually put into operation or began production so that a fairly large number of enterprises changed their technological outlook. Through our own development, joint design, and joint

manufacture with foreign countries, the levels of design and manufacture in the machine-building and electronics industries were enhanced.

6. A new change in economic development among regions emerged. In 1986, the increase in production level in some old industrial cities was lower than the national average. There were many reasons for this situation, including the fact that: It was influenced by a relatively large base and by the shortage of electric power and raw materials; the proportion of processing industry was relatively big; the prices of raw materials increased; and product mix did not suit the change in needs. On the whole, this situation is beneficial in pushing the old industrial bases to a new phase and to further urging them to change their product mix according to demand in domestic and foreign markets.

7. It became more difficult for industrial production to grow in step with taxes and profits. This new situation emerged when the national economy went from "overheat" back to normal and when the system of prices was gradually straightened out. Many provinces and municipalities failed to cause taxes and profits to grow in step with output value. After the reasons were analyzed, there were new factors: 1) In 1985, a large number of products assembled from parts were imported, resulting in a reduction in taxes and profits. 2) Enterprises found it difficult to deal with the rise in purchasing price of raw materials and their costs were exceeded. 3) Of the industrial enterprises' profits, some were shifted to nonindustrial departments through price readjustment and others were transformed into consumption funds through redistribution in the trade. 4) Short-distance freight charges and banks' interest and exchange rates were raised. Some industrial enterprises' profits were shifted to transport and bank departments. Of course, we must profoundly understand that the most basic reason is that the quality of our enterprises is poor and their ability to adapt themselves to changes in the external environment, low. Only by reforming enterprises in depth, improving their quality, and unremittingly launching a drive to increase production, practice economy, increase revenue, and economize expenditure can we make new progress in the work of raising economic results.

II Reforming Enterprises in Depth and Further Strengthening Their Vitality

In the year ahead, we must seriously enforce State Council regulations on strengthening the vitality of enterprises and, according to the principle of separating proprietary rights from the right of operation, boldly carry out exploration, blaze a trail, forge ahead, work hard to find out the types of operation which suit the characteristics of different enterprises, perfect enterprises' operation mechanism and further invigorate them, particularly large and medium-sized enterprises. This is the central task of urban economic structure reform in 1987.

Since the 3d Plenary Session of the 11th CPC Central Committee, in urban economic reform taking invigorating enterprises as the central link, and with stress laid on readjustment of economic relations between the state and enterprises and between enterprises and workers, we have begun by expanding the enterprises' right to independently manage their own affairs. We have successively carried out reforms including: retention of funds and profits; retaining varying portions of profit over and above that handed to the state;

replacement of profits by taxes in two steps; maintaining various types of wages in proportion; payment of efficiency wages; and a series of regulations on the expansion of enterprises' rights have been promulgated. On the whole, reform of enterprises at the previous stage with the expansion of rights, reduction in taxes, and concession of profits as the main contents, broke the old long-established mode of management with unified state control over income and expenditure as the characteristics. Enterprises have begun possessing a certain amount of independent financial resources and rights of operation, and workers have acquired corresponding practical interests from the development of production and the raising of economic results, so that the whole economic life has gradually become lively. However, we must see that expanded rights have not been completely delegated to enterprises. Enterprises still lack stamina for development, and their self-restrictive behavioral mechanism is still imperfect. The key to the solution of these problems lies in carrying out reform in depth, implementing many forms of contracted responsibility system for operation, and giving full decision-making power to operators. We must therefore unify our understanding of the following problems and seek methods to solve them.

1. Invigorating the vitality of enterprises is, in the final analysis, to strengthen their re-input ability (the development of new products and renewal of technology and equipment), and this is a material foundation in forming a benign enterprise production and operation cycle. Whether enterprises have vitality or not, and whether that vitality is great or little, depends on whether or not they can provide products needed by the market and whether or not they have the stamina for development, is determined by their re-input ability. At present, this problem is far from being solved. This is due to the important reasons that enterprises' equipment is old, their techniques backward, and technological progress is slow. Apart from lightening the burden of large and medium-sized key enterprises which have a bearing on the national economy and people's living standards and have important technological transformation tasks, and on light and textile industrial enterprises along the coasts which have important tasks in earning foreign exchange from exports, by further reducing taxes and profits as approved by the State Council, in future we must chiefly find our way out by reforming operations and implementing many forms of the contracted responsibility system of operation in the majority of enterprises, so that they can strengthen their self-accumulation and self-development ability by tapping their internal potential.

2. The lack of vitality in enterprises is the concentrated expression of various defects in the old economic management system, and is not inevitably related to socialist public ownership. We carried out reform because we wanted to overcome obstacles to the development of social productive forces, to further consolidate and perfect the forms of ownership with public ownership as the main feature, and to give full play to the superiority of the socialist system. Judging from the rural situation, under the premise of adhering to public ownership of land, we must implement the system of contracted responsibility with payment linked to output. As peasants really have the independent right to manage their own affairs, the great development of the socialist agricultural economy will be promoted. Likewise, the key to invigorating the economy in cities lies in finding out the modes of operation

suitable to the practical situation, using enterprises as units. We have much practical experience in this aspect. Over the past few years, the increase in income tax paid to the state by workers in trades which implement the input-output contract system, and enterprises which implement various forms of the contracted responsibility system for operation, has been far greater than the average level in all other enterprises. At the same time, these enterprises have expanded their productive capacity and strengthened their stamina. Over the past eight years, iron and steel enterprises have strengthened their productive capacity by an additional 10 million tons by relying on policies and implementing the contracted responsibility system for operation. This situation convincingly shows that implementation of correct policies and reform of enterprises' modes of operation is the main way to strengthen enterprises' vitality.

3. In handling relations between enterprise reform and external conditions, we must persist in putting enterprise reform in the central position, make this and other reforms suit each other and progress in a coordinated way, implement various forms of the contracted responsibility system, and help enterprises step up management, perfect their behavioral mechanism, strengthen their vitality, and work properly. The practical situation is that the vitality of enterprises which implement the contracted responsibility system in operation is different from that of other enterprises, although the same rights have been delegated, the same profit concessions made, and market conditions are similar.

4. While solving the problem of distribution between state and enterprises, we must correctly implement the principle of distribution according to work, and handle distribution relations within enterprises properly. The answer is to delegate to enterprises the right to distribute wages and bonuses. Under the premise that the total amount of wages stipulated by the state is not exceeded, enterprises are allowed to independently determine the specific forms of distribution. Likewise, we have acquired much experience in this aspect. In the internal distribution system, the distribution of bonuses on an equal basis has developed into distribution according to grades; bonuses have been kept tied to labor achievements and personal responsibility; and the system of economic responsibility, with contracted responsibility, guarantee of output, and verification of achievements as the main contents, has been implemented. Recently, this form of integration has further developed and not only bonuses but also wages have been kept tied to the economic responsibility system. Facts prove that implementation of the economic responsibility system and the straightening out of distribution relations within enterprises is an indispensable economic measure to achieve the aim of enterprise operation, and an important measure in arousing the workers' enthusiasm.

In a word, when carrying out reform in depth and while implementing all policies and regulations on invigorating enterprises already promulgated by the State Council, we must discover the specific operational forms for separating proprietary rights from the rights of operation, and cause enterprises to hold themselves economically responsible to the state. We must also allow enterprise operators responsibility, power, and interest. Thus, the operators are encouraged, will take risks, can strengthen their self-

development consciousness and self-restrictive ability, and give better play to the enthusiasm and creative power of the workers.

In enterprise reform during 1987, the specific method was that small state-run enterprises and enterprises which had made small profits or incurred losses could be vigorously operated on a trial basis by lease or contract. Large and medium-sized enterprises under ownership by the whole people must begin by carrying out pilot projects and implement various forms of the contracted responsibility system in operation. Forms can be varied and summed up later.

In handling relations of responsibility, power, and interest between enterprises and workers in the light of practical experiences everywhere, it is known that the more clearly responsibility is defined the better; the simpler the method is the better; the more direct the interest is the better; and the responsibility, method, and interest of the different enterprises and different workers should vary suitably.

In exploring and determining the enterprises' forms of operation, it is necessary to pay attention to handling the following 10 matters well:

(1) The vigorous implementation of the factory director system in assuming full responsibility is the basic reform of the enterprises' leadership system. It is essential to define the factory director's central position in an enterprise, to make operators shoulder their responsibility, and to give full play to the role of enterprise party organizations and the congresses of workers.

(2) It is imperative to determine rational contract base or rent. Under the premise of guaranteeing an increase in state revenue, we must properly handle relations between the state, enterprises, and operators. The continuity and stability of contracts and agreements on leases must be maintained.

(3) The operators' short-term behavior should be ignored and enterprises' stamina strengthened. 1) It is necessary to suitably extend the period of leases and contracts. 2) It is essential to define in contracts the responsibilities which operators should shoulder for the long-term development of enterprises, such as stipulation of quotas for increasing the enterprises' assets, for technological transformation, for perfection of equipment, and for the development of new products on expiry of the contracts or leases.

(4) It is necessary to prevent consumption funds from getting out of control. Increases in wages and bonuses cannot exceed increases in labor productivity. Under the premise of not exceeding the total amount of wages, we must study and adopt a flexible method to arouse the enthusiasm of workers. In issuing bonuses, we must strictly enforce State Council regulations on paying bonus taxes.

(5) If an operator of an enterprise by lease or contract raises a mortgage on his private property, it will make him bear risks and workers will support and understand him.

(6) The responsibility, power, and interests of the state, enterprises, and operators should be defined in contracts, which must be notarized so that they have legal effect.

(7) With the increase in labor productivity, surplus personnel emerging should, in principle, be digested by enterprises themselves.

(8) Operators of enterprises by contract or lease can be individuals or collectives. They can also be enterprises. Enterprises which are operated properly can operate by contract or lease, enterprises which are operated badly. It is necessary to choose the right operators for enterprises by contract or lease. Some places invite operators to submit tenders in order to choose, and the results are good.

(9) State control over enterprise operators by contract or lease must improve. The nature of enterprise ownership for those operated by contract or lease remains unchanged. Some grass-roots business departments treat them as private enterprises and this is wrong. According to enterprise reform requirements departments in charge must carry out corresponding reform and readjust their own management methods.

(10) Under the premise of guaranteeing the fulfillment of state financial tasks, all provinces and municipalities must determine by themselves, pilot projects for various modes of contract and operation.

Invigorating enterprises and strengthening their vitality is the starting point and foothold for economic structure reform, as well as the basic theory and practice of urban economic reform in our country. The modes of enterprise operation and internal distribution in enterprises will be constantly perfected after pilot projects are completed. We hope that after several years' practice, they will gradually be standardized and the specific modes of separating proprietary rights from the rights of enterprise operation which suit the situation of our country, will be discovered.

III Working Hard To Increase Production, Practice Economy and Completely Raise Economic Results

The State Council has made arrangements for this year's drive to increase production, practice economy, increase revenue, and economize expenditure. We must seriously carry them out, do well in organizing the work of production and circulation, completely raise economic results, and ensure that the national economy develops ahead continuously, steadily, and in a coordinated way.

To launch the drive to increase production, practice economy, increase revenue, and economize expenditure, we must first seriously implement the principle of seeking truth from facts and of steadily advancing, bringing the scale under control, and avoiding excessively high and rapid demand. Second, we must conduct education in building our country with diligence and thrift, and in running enterprises with diligence and thrift, among all cadres and workers so as to make them aware that people will take pride in being diligent and thrifty and regard waste as a disgrace. Third, we must take real and

specific measures, not using the old method of concentrating purely on the output value and disregarding economic results. We must not take the old road of disregarding market demand and simultaneously increasing production and overstocking of products. We must step up economic information work, firmly grasp the readjustment of product mix, and vigorously unblock the circulation channels. According to the requirements for grasping management, promoting grades, and completely improving the quality of enterprises, we must really strengthen enterprise management; put increasing production and practicing economy on the foundation of continuously improved quality, unremittingly dropping consumption, and products having a ready market with closely integrated production, circulation, and consumption on the basis of speed, proportion, and economic results developing in a coordinated way. In view of this demand and centered on raising economic results, we must do well in grasping the following 10 items of work:

1. Adhering to reform and further strengthening the vitality of large and medium-sized enterprises.

The most basic work of increasing production, practicing economy, increasing revenue, and economizing expenditure is to carry out enterprise reform in depth and to contract for operation. We must rely on enterprise reform to arouse the enthusiasm enterprise operators and workers and to tap their great potential. At the same time, we must pay attention to protecting the legitimate rights and interests of enterprises from being encroached upon.

2. Organizing and properly coordinating industrial production, communications, and transport work.

We have much work to do in this aspect and must grasp the main points:

We must properly organize the production of energy, raw materials, and light and textile industrial products. While perfecting new generating units for power plants, we must strengthen regulation and direction so that we can generate and supply more electricity and use it in a planned way. In particular we must strenuously economize on electricity. It is necessary to vigorously produce the light industrial products, and raw materials "in short supply," needed for export products. It is essential to seize the opportunity to place orders for raw materials imported with foreign exchange retained by localities and departments, to try in every possible way to ensure an increase in production of light and textile industrial products and small commodities, and to make good arrangements for replacing 20 percent of old designs, colors, and varieties, with products featuring new designs, colors, and varieties. It is imperative to strenuously develop the packing industry and to change the backward state of packaging as soon as possible. We must implement the State Council's preferential policies on strengthening the comprehensive utilization of resources and develop comprehensive utilization of energy and raw materials.

We must do well in organizing communications, transport, postal, and telecommunications. We must ensure the transportation of key products, including coal, grain, and imported and exported goods, and work hard to alleviate the tense situation in postal and telecommunications work.

It is necessary to make industry support agriculture. This is an important measure to strengthen the stamina of agriculture and to promote agricultural development. It is essential to do well in organizing the production, transportation, and supply of agricultural support products, including chemical fertilizers, diesel oil, agricultural chemicals, plastic sheeting, machinery, and tools. We must upgrade the fodder industry. According to rural reform needs, production, and construction, we must readjust the industrial product mix for agricultural use and do a good job in providing after-production service and in giving technological guidance.

We must strengthen guidance to town and township industry. We must seriously implement the principle of vigorously giving assistance, working out rational plans, giving correct guidance, and strengthening management. We must see that towns and township enterprises do well in controlling the quality of their industrial products, step up technological progress and lateral economic ties, and study the methods of towns and township enterprise management.

We must pay attention to safety in production. We must seriously implement the spirit of last year's second national on-the-spot meeting on production safety and ensure safety in production.

3. Properly organizing and coordinating commodity circulation and accommodation of capital.

We must continuously implement the principle of simultaneously developing state-run, collective, and individual enterprises, and invigorate commercial enterprises and commodity circulation. It is necessary to properly organize procurement of agricultural, sideline, and industrial products, and to make good arrangements for supplying market commodities. Industrial and commercial enterprises must coordinate closely with each other, vigorously organize industrial product supply to rural areas, and develop the rural market. We must step up taking stock and strenuously promote the sale of commodities and materials kept in stock for long periods. We must strengthen market management, resolutely implement the principle of maintaining basic market retail price stability, strictly enforce price discipline, conduct price inspections, and not allow indiscriminate price rises. We must speed up financial structure reform, open the funds market in a planned way, and promote the lateral accommodation of capital. We must strengthen funds management, speed up operating funds circulation, and change, as soon as possible, the situation whereby excessively large amounts of funds lie idle in commercial and foreign trade departments. We must strive to succeed in urban and rural savings work, and step up withdrawal of credit funds.

4. Improving product quality and continuously readjusting product mix.

At the fourth national conference on enterprises' technological progress, special arrangements were made for improving product quality. We must seriously carry these out. Leading cadres at all levels, and workers, must really establish the idea of quality first, strengthen all-round quality control, establish a strict system of responsibility for quality, and strictly exercise quality veto power in the reward and punishment system.

Continuously readjusting product mix and increasing production of marketable products is the key to raising economic results. 1) We must study market demand and make arrangements for production according to this demand. Departments in charge at all levels must give guidance in readjusting the product mix, provide information, and give assistance in working out plans. 2) We must make use of economic levers, including prices and credit, to check production of unmarketable products and to encourage production of marketable and quality products. 3) We must do well in putting imported technological items into operation, making them carry out production, and giving play to their role as soon as possible in the readjustment of product mix.

5. Expanding exports to earn foreign exchange.

The shortage of foreign exchange is a long-term problem. In coordination with departments concerned, economic commissions at all levels must organize the supply of goods for export to earn foreign exchange. In a few years time, light and textile industrial products will be our country's main exported products earning foreign exchange. This year, we must make new breakthroughs in quality, grades, and processing. We must change as soon as possible winning victory through quantitative superiority to winning through qualitative superiority. We must use the geographical position of the coastal regions and the advantageous conditions of a relatively strong industrial foundation and technological strength, choose a number of processing enterprises and groups, gradually build outward-oriented export bases with processing and production of high and medium grade products as the main work.

It is impossible to rely solely on the export of traditional products to earn foreign exchange, and it is necessary to vigorously develop the export of mechanical and electrical products. We must properly grasp two main items of work this year: 1) We must continuously implement the state's policies and measures for encouraging and supporting the export of mechanical and electrical products. We must properly grasp two main items of work this year: 1) We must continuously implement the state's policies and measures for encouraging and supporting the export of mechanical and electrical products, and arouse the enthusiasm of all quarters. 2) We must further study strategic measures for exporting mechanical and electrical products, determine key products and markets, and concentrate our energy to develop the international market. At the same time, we must pay attention to strictly controlling the import of mechanical and electrical products to economize on foreign exchange expenditure.

6. Further promoting lateral economic ties.

We must continue to implement the State Council's "Regulations on a number of Problems in Further Promoting Lateral Economic Ties." This year we must grasp both consolidation and development; lay stress on doing a good job in producing export products and in integrating enterprises which produce famous, superior quality, new, and special products; direct more large and medium-sized enterprises to organize and set up enterprise groups; continue to develop lateral economic ties among regions; step up the combination of military industrial enterprises with enterprises which manufacture products for civilian use; and, particularly, take a step forward in stepping up the

combination of scientific research and design units, universities, and colleges with productive enterprises.

7. Doing well in grasping enterprise's technological progress.

Arrangements were made for technological progress in 1987 at the fourth national conference on enterprises' technological progress. All localities are requested to carry out technological reform in enterprises as soon as possible included in the plans for special loans and, at the same time, step up putting imported technology into operation and utilizing it to carry out production. We must speed up the work of digesting and absorbing imported items and of producing homemade products.

8. Strengthening management and doing well upgrading enterprises.

Upgrading enterprises by improving product quality and reducing consumption of materials as the center, is the central work of strengthening enterprise management during the "Seventh 5-Year Plan." This year, we must further step up this work. 1) Leaders at all levels must include upgrading enterprises on their important agenda and carry it through organizationally. 2) It is imperative to work out practical and realistic plans for upgrading enterprises with a target and standard in mind. 3) It is necessary to regard upgrading enterprises as the center to promote all management work, including implementation of the system whereby the factory director fulfills a target during his tenure of office, doing a good job in all-round control over quality, strengthening equipment management, and popularizing modern management. All management work should be carried out centered on the upgrading of enterprises. 4) Make the greatest efforts to reduce costs and, particularly, reduce the material consumption and economize on management expenses. We must score achievements in these two aspects. 5) We must firmly grasp turning deficits to profits and, in the light of the different situations, take effective measures to greatly reduce the number of enterprises incurring losses, and the amount of losses, in the first half of this year. We must announce, as soon as possible, enterprises attaining state level in 1987.

9. Stepping up cadre and worker training and improving worker quality.

In cadre and worker training, it is essential to lay stress on grasping the following aspects: 1) We must vigorously and safely carry out the pilot project of post and professional training, and lay stress on conducting post and professional training for leading cadres of large and medium-sized enterprises. This year, we first must carry out the pilot project in a number of enterprises so as to accumulate experience. 2) We must continuously complete the state examination of managers and directors of factories and mines, and basically complete the examination of managers and directors of large and medium-sized factories and directors of large and medium-sized mines who were appointed before June 1985. 3) It is necessary to take effective measures to speed up training backbone technical workers. 4) It is essential to do well in training leading cadres in provincial and prefectural economic commissions. 5) It is imperative to strengthen worker education organs, economic management cadre colleges, and the building of worker schools; to

improve teaching conditions; to reinforce the ranks of teachers; and to improve the quality of teaching materials. 6) We must step up recruiting intellectuals from abroad, give play to the role of foreign experts and, while doing well in construction, enhance the level of technology personnel in our country.

10. Completely implementing the factory director responsibility system.

We must seriously implement the spirit of the "three regulations" and supplementary circular and, on the basis of unifying our understanding, completely implement in a planned and systematic way the factory director assuming full responsibility system so as to have large and medium-sized state-run enterprises carrying out this system within the year. According to the circular requirements, we must properly readjust enterprise leadership groups and do well in choosing and providing factory directors.

While doing this properly, we must step up building the legal system. Enterprises must further establish the legal adviser system and put it on a sound basis, enhance all workers' concept of the legal system, particularly operation and management personnel, so that production and operation of enterprise can be carried out within the scope permitted by state law. With economic structure reform as the center, and in coordination with departments concerned, we must formulate regulations for operating enterprises by lease or contract and for developing lateral economic ties to guarantee the smooth progress of reform.

IV Adhering to the Four Cardinal Principles and Stepping up Workers' Ideological and Political Work

1. We must seriously organize study and conduct positive education. It is necessary to organize cadres and workers to seriously study the important documents of the CPC Central Committee and important speeches by Comrade Deng Xiaoping on adhering to the four cardinal principles and opposing bourgeois liberalization through study, we must distinguish right from wrong in the following several important problems and unify our understanding. First, adhering to the four cardinal principles and opposing bourgeois liberalization has a bearing on the destiny of our party, on the future of socialism, and on success and failure in all-round reform and opening to the outside world. We must therefore take a clear-cut and firm stand in standing in the van of this struggle and give full play to the role of the working class as the main force. Second, we must understand correctly the relationship between adhering to the four cardinal principles and carrying out reform and opening up. Adhering to the four cardinal principles is unified with adhering to reform and opening up and both are indispensable. Third, consolidating and developing the political situation of stability and unity is an important guarantee for realizing socialist modernization. Without a political situation of stability and unity, normal production, work, and social order will be attacked and economic construction cannot progress.

2. It is necessary to do well in grasping the building of professional ethics and to correct unhealthy trends. In accordance with the CPC Central Committee's "Resolution on the Guiding Principles for Building Socialist

Spiritual Civilization," we must grasp the building of professional ethics and the correction of unhealthy trends as an important task. In the light of ideological realities, we must conduct education among the workers in ideals, morals, culture, and discipline; clearly understand the relationship between democracy and the legal system, between freedom and discipline, and between lofty ideals and our own work; and render meritorious service for the four modernizations. In enterprises, it is essential to cultivate the spirit of enterprise with the characteristics of the enterprises. The spirit of three honests and four stricts [honest in thought, word, and deed and strict standards in work, organization, attitude, and observance of discipline] of Daqing, in the preliminary period of the 1960's, encouraged the workers to work hard to build Daqing. According to the requirements of the new tasks for the new period, we must adhere to the socialist orientation, gradually form a common conviction, work style, and standard of conduct for enterprise workers, strengthen the enterprises' cohesive force, and make the enterprise's spirit become the spiritual pillar to unite the workers. According to their own characteristics, all professions and trades must grasp the salient problems and set feasible professional and moral standards. Leading cadres must set an example and oppose and correct unhealthy trends, including taking advantage of power to seek private ends.

3. It is imperative to overcome bureaucratism and show concern for the workers' livelihood. To run socialist enterprises well, we must carry forward democracy, rely on the masses, and take the mass line. Since the implementation of the factory director responsibility system, importance has been attached to this problem. It is necessary to give play to the role of workers' congresses, to mobilize workers to participate in enterprise management, and to actively make rational suggestions. On the basis of their material conditions, enterprises must do as much as they can to improve workers' living standards. They must strive to do welfare work properly, including setting up canteens, nurseries, unmarried quarters, and worker hospitals, and carry out many forms of cultural and sports activities. They must consult with the masses about matters related to workers' personal interests, overcome bureaucratism, enhance workers' sense of responsibility as masters of their own affairs, and make workers cherish their factories as their homes.

4. It is necessary to improve and strengthen party leadership over enterprises ideologically and politically, and to strengthen ideological and political work for workers. 1) We must strengthen the building of the political work cadre ranks. At present, it is necessary to adopt the principle of stability and promotion toward political work cadres. We must teach political work cadres how to arouse their enthusiasm, to work hard, and to press forward in the face of difficulties. At the same time, we must do well in grasping training and continuously improve the quality of political work cadres to meet the needs of the new period. 2) It is imperative to mobilize everyone to do ideological and political work. Administrative cadres at all levels, professional management personnel, and all party members must regard doing workers' ideological and political work as well as their own important duties. 3) We must maintain close ties between the party and the masses and between cadres and the masses. Cadres, particularly leading cadres, must regularly go deep into the masses, hold talks with workers with a

democratic and equal attitude, make friends with them, promptly grasp and study workers' ideological tendencies, and promptly solve problems once discovered. 4) We must sum up experience in ideological and political work over the past few years and on the basis of inheriting excellent traditions, vigorously study and explore a new road in ideological and political work in enterprises.

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CSO: 4006/346

FOREIGN TRADE, INVESTMENT

OVER 210 CHINESE-FOREIGN JOINT PROJECTS STARTED ABROAD

Beijing GUOJI SHANGBAO in Chinese 8 Dec 86 p 1

[Article by Ceng Shoujiang [2582 1108 3068]: "China Sets up Cooperative Ventures Abroad To Learn Foreign Technology"]

[Text] China has approved the establishment of over 210 nontrade cooperative ventures in Hong Kong, Macao, and overseas so far, with total investments exceeding \$340 million, according to the Bureau of Foreign Economic Cooperation in the Ministry of Foreign Economic Relations and Trade. Chinese-foreign cooperative ventures overseas range from agricultural and industrial production and engineering contracting to integration of technology and trade, integration of industry and trade, transportation and communication, and Chinese restaurants. Over 90 percent of these ventures currently are doing well or fairly well and have had a measure of economic success. Through the establishment of cooperative ventures, China has strengthened economic and technical exchange with countries around the world, which is uniquely useful for absorbing advanced foreign technology and management, increasing commodity and labor exports, and furthering friendship.

China is a latecomer to the business of running cooperative ventures overseas, but it has made healthy progress. Adhering to the principles of equality and mutual benefit, emphasis on tangible results, diversified forms of operation, and simultaneous development, it has vigorously pursued economic cooperation with nations and regions at different levels of economic development. So far more than 210 ventures have been formed in over 50 countries and regions in 5 continents. To make these ventures a success and ensure their profitability, the Chinese Government offers them preferential treatment in such matters as raw material supply, the marketing and sale of products, and taxes. China's policies and measures have been welcomed by its numerous partners.

China has abundant labor and considerable expertise in deep-sea fishing. In its cooperation with coastal nations in Africa, America, and Latin America, it has been approached by more than 30 nations and regions with requests for joint fishery development and has so far approved 9 fishery cooperative projects and despatched more than 30 fishing vessels to the waters of such nations and regions as Senegal, Sierra Leone, Guinea Bissau, Mauritius, the United States, and Iran.

As the economy develops, the scale of Chinese-foreign cooperative ventures overseas will also expand steadily, with a corresponding increase in investments. Thus far over 70 nations and regions have proposed to China almost 400 assorted cooperative projects.

FOREIGN TRADE, INVESTMENT

ECONOMIC TIES STRENGTHEN BETWEEN MAINLAND, MACAO

Shanghai WEN HUI BAO in Chinese 10 Dec 86 p 1

[Article by Le D1 [2867 6611]: "Mainland-Macao Bilateral Trade Jumps 150 Percent Annually"]

[Text] Of every three apples consumed by the people of Macao, one is produced on the mainland. More than half of the beef, pork, and rice on dining tables in Macao comes from Guangdong, Guangxi, and Fujian. Several construction projects in Guangdong and four major bridges on the Guangzhu Highway have received substantial investments from Macao. Today the mainland has become the second largest source of Macao imports and its fifth largest market. Economic intercourse between them is becoming more active by the day.

Bilateral trade is an essential part of this close economic relationship. The mainland has diversified its exports from traditional foodstuffs to such areas as textiles, light industry, and raw industrial materials; industrial and mining products now account for 70 percent of mainland exports to China. The Macao Government also is trying hard to broaden its exports to the mainland, doubling and redoubling exports of electronic products and transportation equipment. Since the beginning of this decade, bilateral trade has been growing at 150 percent annually.

Financial dealings between the mainland and Macao, which are becoming closer daily, have breathed new life into bilateral economic relations. Nantong Bank, a subsidiary of the Bank of China, is the largest bank in Macao and tops the local banking industry in both deposits and loans. Macao Guangdong Bank, too, has been investing heavily in the Zhujiang delta, particularly the Zhuhai special economic zone, building bridges and roads and developing industries.

To further its economic relations with Macao, economic and trade agencies at the center and various provinces and municipalities have successively sent representatives to Macao to open offices and representative offices.

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CSO: 4006/250

FOREIGN TRADE, INVESTMENT

SHANGHAI EXPORTS, ENDING LULL, BEGIN UPWARD CLIMB

Shanghai WEN HUI BAO in Chinese 7 Dec 86 p 1

[Article by Xu Qiuliang [6079 4428 4731] and Zhu Guangming [2612 0342 2494]:
"The Port of Shanghai Overfulfills Export Target"]

[Text] The port of Shanghai fulfilled its 1986 government-mandated export goal of \$3.27 billion yesterday, 25 days ahead of schedule. It is estimated that by year end exports will exceed those of last year by \$300 million. Municipal exports in particular are expected to show a significant rise over the level in 1985, thus bringing to an end the 4-year fluctuation.

Shanghai is China's traditional foreign trade port. Its exports come from other provinces and municipalities as well as Shanghai itself. This year 13 foreign trade companies in Shanghai, which deal in tobacco, machinery and equipment, toys, light industrial materials, metals and mining products, silks, domestic textiles, and food, among other things, all fulfilled their 1986 export tasks ahead of time. Exports provided by sister provinces and municipalities also rose substantially over a year ago.

According to expert analyses, Shanghai's export breakthrough this year is attributable to the following factors besides the objective reason that the international market has firmed up. In early 1986, the municipal government called a foreign trade work conference where it put forward clear struggle objectives, namely that the port of Shanghai must end its 5-year drop in exports and increase its share of total national exports and that the municipality must break the 4-year export fluctuation. Relevant sectors in Shanghai, including production, foreign trade, banks, foreign transportation, commodity inspection, and customs, all took concrete measures revolving around the enhancement of municipal ability to export and earn foreign exchange, and coordinated with one another.

To encourage exports, and operating within limits permitted by national policies and regulations, Shanghai has linked incentives to export targets and economic targets. All factories making export products are allowed to retain foreign exchange pro-rata and offer incentives in RMB. Previously it was more profitable for enterprises to sell their output domestically than abroad. Now that has been changed.

In the past, Shanghai's trade sector simply relied on allocation and passively waited for merchandise to be delivered to the doorstep. Nowadays they go in for economic cooperation with sister provinces and municipalities to increase the municipality's sources of export products. Such cooperation takes a variety of forms, such as joint operation of a factory, joint management, acting as an agent, and import substitution. All foreign exchange generated by exports shipped through Shanghai is returned to where the exports originate. That way Shanghai fulfills its role as a port serving the interior.

By raising capital in every possible way, the foreign trade sector has supported 208 export projects that "require a short construction period, involve a technical level suited to small and medium-sized enterprises, and produce quick economic results," thus increasing their capacity for export production. The industrial sector is energetically stepping up the manufacturing of products popular in the international marketplace. Tire, watch, textile, and bicycle exports have risen appreciably this year compared to a year ago.

12581

CSO: 4006/250

FOREIGN TRADE, INVESTMENT

CHINA'S GROWING EXPORT TRADE REPORTED

Beijing RENMIN RIBAO in Chinese 20 Dec 86 p 1

[Article by Tian Chuan [3944 1557]: "Great Efforts Spent To Open up New International Markets: China's Export Trade Continues To Grow"]

[Text] Beijing, 19 Dec, XINHUA--China's export trade prospered despite the volatile world economic situation this year. Exports of all commodities which earn foreign currencies, with the exception of petroleum, increased significantly. In the past, primary goods made up the bulk of our export commodities, but we are beginning to export more industrial goods today. According to Ministry of Economics and Trade statistics, from January to October of this year, the total value of our exports reached \$22.1 billion, which represents an increase of 7.02 percent over the same period last year. Remarkably, many export commodities, except petroleum, showed significant increases in the volume of export: according to business statistics compiled by the Ministry of Economics and Trade, the total export volume of textiles, light industrial goods, arts and crafts, chemical products, grain, oil and food products, and agricultural products and livestock rose by \$4.85 billion over last year for the same period; it represents an average increase of 28.9 percent. This not only compensated for foreign currency losses due to reduced petroleum exports but also contributed to the net increase in the total volume of exports.

This year promises to be a good year for the country's exports of machinery and electrical products. During the first 3 quarters, machinery and electrical products brought in \$1.59 billion, which is 41 percent more than last year for the same period. Not only has export volume increased significantly, but we are also moving away from exporting parts and components primarily, and this year, our airplanes, color and black and white televisions, digital machine tools, and other technology-intensive products are entering the world market and are attracting the attention of international trade circles.

According to authoritative sources in international trade, although our trade deficit this year is much smaller than last year's, it is still a serious problem, and to solve it we need the cooperation of other countries to open up their markets.

12986/7687

CSO: 4006/217

FOREIGN TRADE, INVESTMENT

DALIAN OPENS CAPITAL MARKET

Beijing GUOJI SHANGBAO in Chinese 4 Dec 86 p 1

[Article by Hou Yu [0186 3768]: "Dalian Aids Foreign Enterprises"]

[Text] Dalian opened a capital market on 21 November to assist enterprises financed by the "three kinds of capital" to resolve export trade problems. Trading was active; within 2 hours \$9.81 million changed hands in loans and foreign exchange, while interbank lending and bill rediscount transactions amounted to 243 million yuan.

As of today Dalian has signed over 1,100 foreign contracts on technology import or the use of foreign capital. More than 250 factories now produce for the foreign market. As the policy of opening to the outside was furthered, the shortage of RMB and foreign exchange became an increasingly striking problem in this municipality. To strengthen capital circulation in both the RMB and foreign exchange, the agencies concerned in Dalian decided to promote capital borrowing and foreign exchange circulation and establish a capital and foreign exchange market by making use of the four differences--time, geographical, sector, and project--between using the RMB and foreign exchange. Enterprises and banks can use a flexible, diverse range of methods, such as short-term loans, bill discount, and rediscount, to raise funds on their own. They are free to seek out their borrowing and lending partners and negotiate and make deals with them. Because of these transactions, formerly scattered capital was pooled and made use of flexibly. The Dalian Kinescope Factory, an export enterprise, was in dire need of sophisticated, high-precision imported metallic materials and chemical industrial materials, but since they were short of foreign exchange, they could not import for a long time. Now with help from the municipal financial agency, they were able to take out a \$800,000 loan. The foreign exchange loan receipt in hand, which was freshly stamped with a bright red seal, the factory's business representative said happily, "The establishment of the capital and foreign exchange market has vitalized our export enterprises."

The 48 foreign enterprises now in business in Dalian as well as the more than 20 foreign chambers of commerce and local offices of foreign banks have reacted enthusiastically to the establishment of a capital market. As they see it, the use of market mechanisms to control and regulate the RMB and foreign exchange will lead to an increase in technology imports and contribute

greatly to balancing the foreign exchange of Chinese-foreign joint ventures. The relevant agencies in Dalian have announced that the capital market will have fixed hours and permanent premises, meeting every Friday like a fair. When conditions are ripe, it will expand its scope of business to become a capital market with Dalian as its window where the three northeastern provinces and Nei Monggol can take part.

12581

CSO: 4006/250

FOREIGN TRADE, INVESTMENT

CAAC EYES PARTNERS FOR AIRCRAFT, INFRASTRUCTURE DEVELOPMENT

Frankfurt/Main FRANKFURTER ALLGEMEINE ZEITUNG in German 26 Jan 87 p 14

[Article by Joerg Kauffmann, Shanghai: "China Seeks Partners in Aircraft Construction: Cooperation With McDonnell-Douglas; Airbus and Boeing Negotiate; German Consulting"]

[Text] Shanghai, Jan—Flying within the People's Republic of China can become a waiting game; local people we talked to admit freely that one of the reasons punctuality and regularity in domestic air traffic cannot be counted on is the lack of competition. Decentralization is being implemented very slowly; the monopoly held by the Civil Aviation Administration of China (CAAC) is being very carefully chipped away—up to now it has had air traffic firmly in its control, including airport operation and flight safety. Now the state wants to permit the establishment of a number of regional airlines.

Lack of Service

Travelers coming from Frankfurt and landing in Beijing after 17 hours would be well advised to forget strictly Western attitudes at least for awhile. This capital city's airport, the air traffic hub of this gigantic empire, has a lack of service akin to that of a company which is not very oriented toward customer satisfaction but which more or less provides services. Restaurants are only open at certain times, duty-free shops may already be closed at 7:30 in the evening and the connecting flight information on bulletin boards and monitors is often incorrect.

Particularly unlucky travelers have no trouble accumulating domestic flight delays which are three times longer than the flight itself. The reasons for this problem are difficult to determine. Perhaps it is the completely inhomogeneous fleet of aircraft. The CAAC flies pretty much anything that has wings from Russian, American, European and even a few Chinese producers. The fleet includes old planes, as well as the most modern ones such as the Airbus A 310 or the Boeing 737-300. Apparently, it is very difficult for the CAAC to flexibly structure the use of crews and aircraft. Bad weather can mean added confusion because snow plows are not available, for example, or landing aids are not in the best possible technical condition; important airports have

already been closed down under visibility conditions which at well-equipped large airports around the world would still have permitted landing without problems.

Ten Million Passengers

The opening up of China to the outside world has generated tourism and business traffic. Last year the CAAC handled nearly 10 million passengers, two million more than in 1985. That is not much in a country with over one milliard (billion) people. The CAAC is making an effort to improve conditions at the airports; 20 new accesses have been added to the fleet. The People's Republic could become a fascinating future market for the aviation industry in the West. China, which builds and exports small commercial aircraft, is looking for business partners. Up to now cooperation with the American manufacturer McDonnell-Douglas has made the most progress. In the spring of 1987, the CAAC will place in service the first 150-seat MD-82 which was assembled in Shanghai. The agreement, which was concluded in 1985, calls for the construction of 25 of these well-trying twin-engine jets by 1991.

Naturally, Airbus-Industrie and Boeing have long been negotiating production plants for similar-sized aircraft. China needs a modern 70-seat plane for less frequently traveled stretches. Interested parties from America, Canada, Brazil, France and Sweden are lobbying, but England and the FRG are already further along. British Aerospace and Catic (China National Aero-Technology Import and Export Corporation) have agreed on the construction of short-range aircraft; Messerschmitt-Boelkow-Blohm (MBB), together with the Chinese, is preparing a feasibility study for a type of aircraft with 75 to 90 seats. The decision should be made by the end of 1987.

Germany's interest in China is reflected in the nine-firm joint exhibit which the BDLI (Association of the German Aviation, Aerospace and Equipment Industry) set up in the exhibition hall in Shanghai for the China Aviation '86 exhibition. In addition to MBB, aircraft manufacturers included Dornier GmbH of Munich and Prof Claudius Dornier's Seastar GmbH of Oberpfaffenhofen; Maschinen- und Turbinen-Union (MTU) of Munich exhibited the latest in jet engine technology. German participation in this aviation exhibition was viewed primarily as making an appearance and was hardly in expectation of making concrete business deals. The representative of Anton Piller GmbH in Osterode am Harz was himself therefore surprised when he, as a newcomer, succeeded all at once in concluding an agreement with Catic amounting to DM 80,000 for delivery of frequency conversion systems for supplying power to airports, thus making inroads into the dominant market position of a U.S. supplier. Inge Muehlenberg, owner of an aircraft cabin equipment company in Norderstedt, on the other hand, had a more typical experience. The Chinese were impressed with the quality work of the north German company, which obtains half of its sales as a result of Lufthansa orders, but found the asking price too high.

For years Flughafen Frankfurt/Main AG (FAG) has been an example of persistence in China. Following some success in Asia (Karachi, Bangkok, New Delhi, Macau and the South Pacific), FAG wants to get into the consulting business with the People's Republic of China and at the same time feels it is also opening the

door for German industry. As FAG's "Airconsult" sees it, statements in the seventh five-year plan (up to 1990) confirm its estimation that after birth control China's most pressing future need must be to solve its water, land and air transportation problems. On the table in Beijing is a proposal to develop a transportation consulting company in which the transportation industry of the FRG is involved. It could provide knowhow for the urgently needed modernization of the transportation system and could initiate projects involving highway, railroad and airport construction, the expansion of airport facilities or the laying of pipelines. The FAG plans to be involved in airport planning, training of personnel and management. According to the Chinese, most of the 80 existing airports will be modified to meet the growing traffic requirements and an additional 20 new airports will be built.

The FAG is also negotiating the plans for a new airport in the town of Ningbo, located southeast of Shanghai—in competition with the Japanese who already expanded the airport facilities there. Finally, the talks, together with Lufthansa and German shipowners, have also expanded to include the linking of sea and air transport in the deep-sea harbors. All this requires immense patience, says FAG air freight manager Hans-Juergen Fischer, who has good contacts in China and has long cultivated this virtue of patience. Just like the head of "Airconsult," Karlheinz Rebscher, Fischer also complains about the lack of political support from Bonn. Aeroport de Paris and other European and non-European competitors were always able to count on more effective government backing when soliciting projects abroad.

The negotiations with China are continuing. Negative experiences have not yet caused patience to wear too thin. An initial large-scale offer of cooperation for the development of an air traffic infrastructure, devised by FAG, Lufthansa and Krupp, became bogged down at the beginning of the 1980's.

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CSO: 4620/13

FOREIGN TRADE AND INVESTMENT

RAILWAYS MINISTRY PURCHASING COMMUNICATIONS NETWORK FROM FINLAND

Helsinki HUFVUDSTADSBLADET in Swedish 6 Feb 87 p 19

[Text] Nokia Telecommunications is delivering a digital telecommunications network to the Chinese Ministry of Railways. The ministry has ordered six digital DX 200 telephone exchanges, digital transmission systems and control systems for the network. Deliveries will take place this year and next. The sale is worth at least 20 million markkas (U.S.\$4.4 million). The telecommunications network which Nokia will deliver covers a 400 kilometer-long rail section between Datong and Beijing. The system will at first take care of approximately 5,000 stations. On Thursday [5 February], Nokia announced also two other deals. The Chinese company China Zhihua Cooperation has ordered a digital radio-link network for the Da Yunhen Canal. This order will also include a monitoring system.

Nokia has also received its first order for an optical transmission system. Delivery will take place during the spring, and--according to Nokia--the latter two sales together will be worth somewhat less than 10 million markkas (U.S. \$2.2 million). Nokia has also earlier delivered computer equipment to China, including for China's largest oil field.

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CSO: 3650/70

ECONOMIC ZONES

SHENZHEN RELAXES CONTROLS ON FOREIGN EXCHANGE PRICING

Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese No 48, 1 Dec 86
p 57

[Article by Li Hang [2621 5300]: "Shenzhen Deregulates Foreign Exchange Prices"]

[Text] On 17 November the Shenzhen city government issued new rules as a further step in the decontrol of foreign exchange pricing.

The regulation of foreign exchange prices have been relaxed. Only the source of foreign exchange and the way it is spent are still being regulated. Foreign exchange prices are to be negotiated between buyers and sellers.

Ever since the relaxation of regulated foreign exchange prices, the Shenzhen Foreign Exchange Regulation Center has become a supervised and limited foreign exchange market. Its main functions are to process foreign exchange purchases and sales, compile statistics on foreign exchange regulation and collect information, and provide relevant price information as a service to buyers and sellers. The center allows Baoan Province's public and private enterprises to participate in regulated foreign exchange transactions.

Questions and Answers Concerning Shenzhen's Regulation of Foreign Exchange.

Question: How does the Shenzhen SEZ regulate foreign exchange?

Answer: The Shenzhen SEZ recently issued a measures on the regulation of foreign exchange and set forth regulations in 10 areas.

Question: Who may participate in the activities of the Shenzhen Foreign Exchange Regulation Center?

Answer: Participating enterprises are those located in Shenzhen, including those wholly or partially funded by foreign capital, enterprises jointly invested in by the SEZ and relevant units in the interior, and institutions. Individual contracting units and residents may sell foreign exchange but may not purchase them. Baoan provincial enterprise and institutions may also take part.

Question: Where does the foreign exchange that is subject to regulation originate?

Answer: The foreign exchange or cash subject to regulation belong to the following categories: the percentage of foreign exchange allowed for retention from trade and non-trade sources, foreign exchange or cash the state allows units earning foreign exchange to keep after taxes, the foreign exchange or cash that the non-SEZ partner of an SEZ/non-SEZ joint ventures may keep to use in Shenzhen; foreign exchange or cash retained by individual contracting households or residents and small businesses; and any other source authorized by the state.

Question: What are the legitimate uses of regulated foreign exchange?

Answer: They may be used to import goods and technologies urgently needed by enterprises. Units may use them for trips abroad, foreign study, inspections, negotiations, trips to broaden one's horizons and training. Purchased foreign exchange must be spent on purposes for which they were authorized at the time of purchase; any change in use must be with the prior approval of the State Administration of Exchange Control (SAEC).

Question: How does one obtain permission to carry out transactions in regulated foreign exchange?

Answer: One must first submit a written application to the SAEC. Once approved, one may engage in transactions by presenting a permit to the Shenzhen Foreign Exchange Regulation Center.

Question: How are prices of regulated foreign exchange determined?

Answer: Deregulated foreign exchange is priced as a result of negotiations between buyers and sellers at the Shenzhen Foreign Exchange Regulation Center.

Question: How much does the Shenzhen Foreign Exchange Regulation Center charge as a processing fee?

Answer: The exact amount of the fee is a set portion of the transaction and is collected from both buyers and sellers.

Question: Where do the transactions take place?

Answer: Foreign exchange transactions may take place only in designated areas; transactions without the permission of the Foreign Exchange Regulation Center are prohibited.

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CSO: 4006/217

ECONOMIC ZONES

SHENZHEN'S INVESTMENT PLANS, ECONOMIC SITUATION DISCUSSED

Hong Kong WEN WEI PO in Chinese 17 Dec 86 p 1

[Article: "Shenzhen To Invest 2.2 Billion Next Year: Emphasis Is on Improving Transportation and Telecommunications; Capital Construction Plans Are Set, and Investments Will Surpass This Year's"]

[Text] According to the CHINA NEWS Shenzhen Dispatch dated 16 December, plans for Shenzhen's capital constructions for next year are set. Non-local businesses will invest 1.11 billion yuan in major industrial projects and transportation, telecommunication, and energy projects. These will account for more than half of all the investments.

Today, in discussing next year's economic prospects, Jiang Gui [5367 6311], chairman of Shenzhen's Social And Economic Development Committee, said that after balancing the scale of investments for next year, it was decided that 2.2 billion yuan will be spent; this represents a 22.2 percent increase over this year's investments. Overall capital construction investment will be kept up to maintain a certain scale. As planned, next year's investments will emphasize export-oriented industrial projects which require low initial investments, but generate quick returns and good results and earn foreign currencies. They will step up efforts to build a foam glass manufacturing plant, a laser disc audio and video machine plant, a deluxe printing and dyeing mill, and other key projects. Also they plan to complete the first phase of the Lowu-Shataukok Tunnel and railway viaduct, which is scheduled to begin service in March. A location for the international airport will be selected this winter, and construction will begin next year. In addition there will be dock construction at the Mawan Harbor and other locations.

Shenzhen's Export Trade Is Growing, the City's Budget is Balanced: Industrial and Agricultural Output Value Increased by 27 Percent and 17 Percent, Respectively

There will be major changes in the telecommunication infrastructure next year. Plans are set to complete the installation of 1,720 long-distance telephone lines by the end of next year; this will more than triple the present 672 lines. A new long-distance telephone bureau will be added. A number of domestic phones will increase from the present 2,700 units to 3,700 units next year.

Next year's energy-related installations will make sure that the first generating unit at Plant B of the huge Shataukok Power Plant goes into operation by 1 July. The electrical transformer projects in Baoan, Shangpu, and other areas will be enhanced to eliminate the "bottleneck" problem in power supply and improve the investment environment.

In summing up Shenzhen's economic situation this year, Jiang Gui also summarized several features in its developments: industrial and agricultural output continues to increase; the scale of capital construction investment is under control; export trade is expanding rapidly; and revenues and expenditures are balanced.

It is estimated that this year's total industrial output value will reach 3.4 billion yuan, and agricultural output value will reach 220 million million yuan; they represent a 27 percent and a 17 percent increase over last year, respectively. The even better news is that Shenzhen's total export value continues to grow. In the industrial sector, light industry, textiles, and others which enjoy various advantages are, in varying degrees, playing a bigger role in the economy. In the agricultural sector, because of increased exports of fresh and live products, this year's exports may reach 620 million yuan, which is an increase of 18.9 percent over last year. For the city as a whole, the value of exports will reach \$670 million, which is 19 percent more than last year.

In addition, this year Shenzhen projects a revenue of 880 million yuan and will operate on a balanced budget. A remarkable point is that the basis of this year's revenue is the strength of the economy itself, unlike in the past when revenues were heavily dependent on taxes and tariffs. The city is estimated to earn \$770 million in foreign currencies, which is 14.9 percent more than last year.

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ECONOMIC ZONES

XIAMEN PLA UNIT SUPPORTS SEZ CONSTRUCTIONS

Beijing RENMIN RIBAO in Chinese 21 Dec 1986 p 4

[Article by Chang Qubia [1603 0637 1753]: "Xiamen's Garrison Command Actively Supports SEZ Constructions: Assisted in Six Projects Over the Past 5 Years"]

[Text] The officers and men of Xiamen's PLA garrison command are vigorously helping with the Xiamen SEZ constructions. During the past 5 years, they have contributed a total of 698,400 working days and sent out their trucks more than 2,530 times to help with the construction of six key projects in the SEZ. Their efforts have been praised by leading comrades in the party Central Committee and the Military Commission.

The officers and men of the Xiamen garrison command regard their support for the SEZ constructions as a major military task assigned by the party Central Committee in this new era. The stance of the members of their party committee is clear: they will actively support all undertakings which serve the SEZ constructions. In order to solve the permanent water shortage problem in Xiamen, they dispatched a large troop of cadres and soldiers to help their fraternal units in Jiulongjiang's Beixi irrigation project previously approved by the State Council; that project was completed with speed and quality. In order to accommodate the Xiamen SEZ constructions and the policy of opening up to the outside world, the officers and men of the PLA also actively participated in the construction of six other major projects including the Xiamen railway station, the international airport, the east cross-harbor ferry dock, and the international-standard sport stadium, and they helped speed up developments in the SEZ constructions.

In supporting these major construction projects, the officers and men of the PLA endured much hardship and persevered. They began construction of the three bridge approaches to the railways station lobby in late spring, the construction units working day and night in three shifts in the incessant rain. Hampered by the terrain, they were unable to use machinery, so they organized a human conveyor belt to deliver more than 300 cubic meters of concrete to the construction site. After 26 days of hard work they finally completed the three covered-bridge approaches and the 2,600 square meters of platform. The new station was ready for use 1 month ahead of schedule.

Because of the expansion of the Xiamen SEZ and developments in the tourist business, some military facilities and bases had to be relocated. The Xiamen garrison command consciously accommodated the needs of the SEZ constructions. In recent years, with approval from the higher commands, this unit has given up more than 10 fortified military facilities, including the Hulishan Battery, Huxiyan, Langdongshan, the Baishi Battery, and others which are being converted into tourist spots. They have removed 72 barracks and modified 1.19 million square meters of land. The 7th Company of a certain regiment was a newly formed unit, and their men worked hard and built everything from the ground: they repaired the barracks, installed all the facilities, beautified their environment, and cultivated 8 mu of vegetable gardens and 20 mu of rose gardens. When the Xizmen City government and the higher commands decided to build the airport on their land, the company steadfastly and cheerfully carried out their relocation orders.

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CSO: 4006/217

ECONOMIC ZONES

MANAGEMENT RULES ANNOUNCED FOR JIANGSU'S EDZ'S

Nanjing XINHUA RIBAO in Chinese 28 Dec 86 p 2

[Article: "Management Regulations for Jiangsu's Economic Development Zones (EDZs)--Adopted by the 23rd Standing Committee of the Sixth Jiangsu Provincial People's Congress on 20 December 1986; the Standing Committee of the Jiangsu Provincial People's Congress Announces that the 'Management Regulations for Jiangsu's EDZs' Were Passed by the 23rd Standing Committee of the Sixth Jiangsu Provincial People's Congress on 20 December 1986, and Were Published and Became Effective on 23 December 1986"]

[Text] Section I: General Rules

Article 1: These regulations were formulated in accordance with the "Constitution of the PRC" and relevant laws and regulations.

Article 2: These regulations apply to EDZs set up in Jiangsu Province upon State Council approval.

Article 3: EDZs are under the jurisdiction of local municipal people's governments, have clear-cut regional boundaries, and are subject to certain special state policies.

The purpose of EDZs is to expand foreign economic and technical cooperation, import foreign capital, advanced technology and scientific management expertise, develop new industries, increase exports, open up international markets, improve economic and technical contacts and cooperation within Jiangsu and abroad, and promote economic and technological growth.

Article 4: Foreign companies, enterprises, and other economic organizations or individuals (hereafter abbreviated as foreign businessmen) are encouraged to fund and set up in EDZs enterprises that export their products or have advanced technology, scientific research institutes, and infrastructures, etc.

Foreign businessmen may make investments in the following ways:

(1) joint or cooperative management with companies, enterprises, or other economic organizations within Jiangsu or abroad;

(2) wholly foreign management;

(3) other ways of cooperating that are permitted by PRC law.

Article 5: Companies, enterprises, scientific research units, and colleges and universities within Jiangsu or abroad are encouraged to fund and develop in EDZs new techniques, technology, products, and materials, and set up Chinese-foreign joint ventures, joint enterprises, joint scientific research institutes, and infrastructures.

Article 6: All units and individuals within EDZs must abide by the laws and regulations of the PRC, and their property and other legitimate rights and interests in EDZs are protected by law.

Article 7: It is not permitted to run in EDZs projects that pollute the environment without practical control measures, or those whose products are prohibited or restricted by the state.

Section II: Administration

Article 8: EDZ management councils are the agents of local municipal people's governments that manage EDZs.

Article 9: EDZ management councils exercise the following functions and powers:

1. formulating overall and development plans for EDZs, and organizing and implementing them after submission to the higher authorities for approval;
2. as authorized by municipal people's government, making overall plans for, examining, and approving projects to be funded and built in EDZs;
3. unified handling of land examination and allocation in EDZs, and collecting land-use and development fees;
4. enforcing state policies, laws, and decrees, and supervising and inspecting EDZ trade;
5. managing EDZ revenues and expenditures;
6. setting up EDZ public utilities;
7. supervising and coordinating the work of branch organizations of all relevant municipal departments in EDZs;
8. formulating, inspecting, and enforcing relevant administrative rules and regulations in EDZs;
9. handling according to law matters concerning foreign affairs or foreign nationals in EDZs;

10. other functions and powers conferred on them by local municipal people's governments.

Article 10: Based on work needs and upon the approval of local municipal people's governments, EDZ management councils will establish administrative bodies to be responsible for routine administration in EDZs.

Article 11: Such tasks in EDZs as industrial-commercial enterprise registration, foreign exchange management, banking, customs, commercial inspection, tax collection, culture and education, public security, and insurance, will be handled by relevant local municipal departments or administrative bodies set up in EDZs.

Section III: Registration and Management

Article 12: Investors who want to fund and set up enterprises and other facilities in EDZs must apply to EDZ management councils, submit required documents and, upon examination, verification, and approval, undergo such formalities as land-use certification, business licensing, and tax registration.

Article 13: Enterprises and institutions in EDZs should establish accounts with the Bank of China or other state-approved banks set up in EDZs to handle matters relating to foreign exchange.

All companies, enterprises, and other economic organizations in EDZs should be insured by the China Insurance Agency or other state-approved insurance companies set up in EDZs.

Article 14: Enterprises in EDZs should establish account books in EDZs and submit quarterly and annual accounting report forms according to stipulation to EDZ management councils and other responsible departments concerned with their business. Annual accounting report forms must be tested, verified, and certified by accountants registered in the PRC.

Article 15: Enterprises in EDZs that close down should report their reason for closing to EDZ management councils according to legal procedure and undergo closing formalities. Inventory procedures for their property will be handled according to relevant PRC legal provisions and, after they have paid the necessary taxes and debts, their capital can be transferred and their funds belonging to foreign businessmen can be taken out.

Section IV: Preferential Treatment

Article 16: Productive enterprises funded by foreign businessmen in EDZs will have their enterprise income tax rates reduced by 15 percent. Upon application to and approval by local municipal tax organs, those that have a management period longer than 10 years will be exempt from income taxes for the first and second years that they make profits, and have them reduced by half from the third to the fifth years.

After the enterprise income tax exemption or reduction period expires as stipulated by the preceding section, all enterprises that export their products and whose export product output value in a year is more than 70 percent of that year's product output value, will have their enterprise income tax rates reduced by 10 percent; enterprises with advanced technology can extend the 50 percent reduction of their enterprise income taxes for 3 more years.

Enterprises that export their products or have advanced technology will be exempt from local income taxes during the period that they are exempt from enterprise income taxes as stipulated by section 1 of this article. After their enterprise income tax exemption period expires, they will be exempt from local income taxes for 3 years, and then have them reduced by half for 3 more years. After the local income tax exemption period expires for enterprises that export their products, all those whose export product output value in a year is more than 50 percent of that year's product output value will be exempt from local income taxes.

Article 17: Foreign businessmen will be exempt from paying income taxes on their share of their enterprise profits that they take out of EDZs.

Article 18: Foreign businessmen who reinvest their EDZ enterprise profits in China to set up or expand enterprises that export their products or have advanced technology and that have a management period of not less than 5 years, will have all of the enterprise income taxes that they have paid on the reinvested portion returned to them upon application to and ratification by local municipal tax organs. If the investment is withdrawn within 5 years, the returned taxes should be repaid; that used for other reinvestment should be handled according to the relevant provisions of the "PRC Chinese-Foreign Joint Venture Income Tax Law."

Article 19: All foreign businessmen who do not have established organizations in the PRC but have dividends, interest, rents, charges for special permission rights use, and other income that originates in EDZs, excluding that which is legally exempt from income taxes, will have their income tax rates reduced by 10 percent. Those who provide funds and equipment or transfer advanced technology through preferential factors, can be given further preference in income tax exemption or reduction upon ratification by local municipal people's governments.

Article 20: Annual losses that occur in enterprises funded by foreign businessmen in EDZs can be made up by withdrawing a corresponding amount from the following year's income: if they cannot be made up from the following year's income, they can continue to be made up by withdrawing income year after year for a maximum of 5 years.

Article 21: Except for those that the state restricts import of or makes other provisions for, products that are produced for export by enterprises in EDZs will be exempt from customs duties and industrial-commercial taxes.

Article 22: Materials that EDZs or their enterprises import for their own use, such as building materials, production equipment, raw and processed materials, spare parts, components, communication instruments, and stationery, plus those that they import to produce products for export, such as raw and processed materials, spare parts, components, and packing materials, will be exempt from customs duties and industrial-commercial taxes. When products that are processed with raw and processed materials, spare parts, or components that are imported duty-free are transferred to the domestic market upon the approval of relevant national departments, supplemental customs duties and industrial-commercial taxes will be collected according to regulation on the imported materials and parts that are used.

Reasonable amounts of articles used to set up house and communications instruments imported for their own use by foreigners who work or live in EDZs, will be exempt from customs duties and industrial-commercial taxes upon certification by EDZ management councils.

Article 23: The amounts of water and power needed for production and management by enterprises funded by foreign businessmen in EDZs will be listed in local plans, and priority will be given to guaranteeing their supply. Costs for water and power used by enterprises that export their products or have advanced technology will be calculated and collected according to planned prices; costs for water and power used by other enterprises that are funded by foreign businessmen will be calculated and collected according to the same fee-collection criteria used for local state-run enterprises. Within the limits of provincial ratification jurisdiction, no fees for building complete sets of water and power equipment or increasing water and power capacity will be collected any longer from enterprises funded by foreign businessmen.

Article 24: Local goods and materials departments will arrange a preferential supply of raw and processed materials needed for construction and production by enterprises funded by foreign businessmen in EDZs, and the prices will be the same as those for raw and processed materials supplied to local state-run enterprises.

Article 25: According to bank stipulations, enterprises funded by foreign businessmen in EDZs can use cash exchange or fixed assets as collateral when applying to banks for mortgages or loans. Preferential loan criteria will be used by all banks for enterprises funded by foreign businessmen which have established accounts for circulating funds and temporary circulating funds. Funds needed for production and management of enterprises funded by foreign businessmen can be raised abroad, and borrowed and repaid by enterprises themselves.

Article 26: After being completed and put into production, productive enterprises funded by foreign businessmen which have trouble paying their industrial-commercial taxes can have them reduced or remitted upon examination, verification, and ratification by local municipal people's governments in EDZs.

Article 27: Enterprises funded by foreign businessmen in EDZs will also enjoy all preferential treatment stipulated by relevant PRC and Jiangsu laws and regulations.

Section V: Supplementary Articles

Article 28: Local municipal people's governments in EDZs should promptly examine and approve the reported needs of enterprises and institutions in EDZs, give official, written replies, and arrange to solve their problems. Within 1 month after receiving them, the Jiangsu people's government must give official, written replies to all documents on EDZ needs reported by local municipal people's governments in EDZs; ratification of credentials and industrial-commercial business licenses must be completed within 10 days.

Article 29: Such tasks as labor and land-use management in EDZs will be carried out in accordance with relevant PRC and Jiangsu stipulations.

Article 30: These regulations apply to enterprises that are funded and set up in Jiangsu EDZs by companies, enterprises, and other economic organizations or individuals from Hong Kong, Macao, and Taiwan.

Article 31: These regulations come into force upon promulgation.

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FINANCE, BANKING

PRC CITIZENS TO PAY ADJUSTED PRIVATE INCOME TAXES

State Council Issues Regulations

Shanghai JIEFANG RIBAO in Chinese 12 Dec 86 p 1

[Unattributed article: "The State Council Issues Provisional Regulations To Go Into Effect at the Beginning of 1987; Citizens Will Pay Stipulated Adjusted Income Taxes; This Will Both Allow Some People To Get Rich First, and also solve the Problem of Excessive Income Disparities"]

[Text] The State Council has recently issued "Provisional Regulations on Adjusted Private Income Taxes in the PRC," which will go into effect on 1 January 1987.

The "Regulations" stipulate that all Chinese citizens who live in the PRC and have private incomes must pay stipulated adjusted private income taxes.

The "Regulations" stipulate that adjusted private income taxes must be paid on the following eight income categories: wages and salaries; contract and contract transfer income; payment for labor; property rent; patent transfer, patent use permission, and nonpatented technology supply or transfer income; publication and translation income; interest, dividends, and bonuses; other taxable income as defined by the Ministry of Finance.

The "Regulations" stipulate for each wage zone the respective tax calculation base, tax rate, and what income will be exempt from adjusted private income taxes.

There are 18 "Regulations." Today, JIEFANG RIBAO is publishing the full text of the "Regulations" (on p 3) and the answers of a responsible person from the General Taxation Bureau of the Ministry of Finance to a reporter's questions on the payment and collection of adjusted private income taxes.

Taxation Bureau Answers Questions

Shanghai JIEFANG RIBAO in Chinese 12 Dec 86 p 1

[Interview: "A Responsible Person from the State General Taxation Bureau Answers Reporter's Questions on the Payment and Collection of Adjusted Private Income Taxes"]

[Text] A responsible person from the General Taxation Bureau of the Ministry of Finance recently answered questions from PEOPLE'S DAILY and NEW CHINA NEWS AGENCY reporters on the payment and collection of adjusted private income taxes.

[Question] Why will adjusted private income taxes be paid and collected?

[Answer] Since the 3d Plenum of the 11th CPC Central Committee and along with the growth of economic reform and the socialist commodity economy, major changes have occurred in the private incomes of PRC citizens. Wages were the principal form of income for most people in the past, but income derived from various sources, such as contract management or share investment, has now increased. On one hand, this has played a positive role in eliminating the abuses of equalitarianism and the "iron rice bowl," aroused the enthusiasm and creativity of the masses, and promoted the growth of all enterprises. But on the other hand, distribution problems as a too rapid growth of consumer funds, a few people having incomes that are too high, and excessive income disparities among members of society have also appeared. In order to both allow some people to get rich first and also solve the existing problem of excessive income disparities among the members of society, it has become necessary to utilize the lever of tax adjustment. Collecting adjusted private income taxes will play a major role in regulating the private incomes of citizens, better implementing the principle of distribution according to work, accelerating the growth of the socialist commodity economy, and promoting social stability and unity.

[Question] Who will have to pay adjusted private income taxes?

[Answer] The "Provisional Regulations on Adjusted Private Income Taxes in the PRC" stipulate that all Chinese citizens who live in the PRC and have private incomes will have to pay stipulated adjusted private income taxes. But in fact, since the adjusted private income tax deductions are set quite high, i.e., the private income tax exemptions are quite large, and the present incomes of China's people are quite low, very few people will qualify as taxpayers and thus, most citizens will not have to pay adjusted private income taxes at present.

[Question] What will the adjusted private income tax burden be like?

[Answer] Since the adjusted private income tax deductions are set quite high, the actual tax burden to be levied on private income will be quite light. For example, the fifth article of the "Regulations" stipulates that if one's total income from such sources as wages, salaries, contracts, contract transfers, payment for labor, or property rent is 1,000 yuan a month and he lives in a No 6 wage zone, he must pay an adjusted private

income tax of 260 yuan, making his real aftertax private income 740 yuan a month and his real tax rate 26 percent.

[Question] Are there any contradictions between payment and collection of adjusted private income taxes and implementation of the policy of allowing some people to get rich first?

[Answer] These two things are a dialectical unity. Collecting adjusted private income taxes will indeed not affect the policy of allowing some people to get rich first. Since high-income citizens, after paying adjusted private income taxes, will still have much higher real incomes than China's present average per capita income and, the higher their income, the greater their aftertax private income, they will still be able to get rich before most other people. Moreover, proper regulation of the incomes of members of society will also prevent excessive income disparities and help to uphold the socialist principle of getting rich together.

[Question] How will adjusted private income taxes be collected?

[Answer] The "Regulations" stipulate that adjusted private income taxes will be based on income sources and calculated and collected according to the graduated tax on monthly income threefold higher than the base figure and proportional tax rates, respectively.

Proportional tax rates will be calculated according to a specific scale.

The graduated tax on monthly income threefold higher than the base figure will be assessed on each different wage zone in China, (delineated in the state's unified regulations). These zones are divided into four grades. Each grade is assigned a base figure calculative taxes. Taxes will not be levied on total individual monthly income that is less than threefold higher than the base taxes will be levied on the income more than threefold the base figure and assessed according to graduated rates. For example, Beijing is in the No 6 wage zone and belongs to the first grade. If has a base tax figure of 100 yuan. Taxes will not be levied on total monthly income less than threefold higher than the base figure, or 400 yuan or less, and will be levied only on that part which exceeds 400 yuan.

[Question] Will individual income taxes still be levied after adjusted private income taxes are paid and collected? What is the relationship between them?

[Answer] After adjusted private income taxes are paid and collected, the "PRC Individual Income Tax Law" promulgated and put into effect by the National People's Congress in 1980 will continue to be in effect and enforced, and individual income taxes, but not adjusted private income taxes, will still continue to be levied on foreigners living in China. Since adjusted private income tax deductions are lower than individual

income tax deductions, PRC citizens will not have to pay individual income taxes after paying adjusted private income taxes.

[Question] Why will adjusted private income taxes be collected under the two methods of tax deduction and payment by the paying unit, and tax reporting and payment by the taxpayers themselves? How will taxpayers report their own taxes?

[Answer] Since adjusted private income taxes will be calculated and levied on total income each month, and each time on taxable single-income items, the two different collection methods of tax deduction and payment by the paying unit, and tax reporting and payment by the taxpayers themselves, will be used.

Taxpayers who report their own taxes should fill out accurate, detailed reports on the dates stipulated and the report forms drawn up by tax organs. For single-income-item taxes deducted and paid by the paying unit, the person responsible for deducting and paying can issue the taxpayer a deduction and payment receipt so that, when examining and verifying, the tax organ can deduct it from the taxable amount.

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FINANCE, BANKING

SHANGHAI TO ISSUE BONDS IN SINGAPORE

Hong Kong MING PAO in Chinese 13 Nov 86 p 35

[Text] The Shanghai municipal government proposes to issue public bonds in Singapore to raise funds for various future development projects.

The \$100 million (about 200 million Singapore dollars) bonds-issue plan has received strong support from several major Singapore banks.

This was disclosed by Vice Chairman Lu Guoxian [7120 0248 6343] of the Foreign Economic Relations and Trade Commission of the Shanghai municipal people's government.

He said that a delegation led by Vice Mayor Li Zhaoji [2621 5128 1015] has just returned to Shanghai. While in Singapore, the delegation held talks with Huaqiao Bank, Dahua Bank, Hualian Bank, the Singapore Development Bank, and the Singapore Financial Management Bureau. Representing Shanghai in these discussions were the president of the Shanghai branch of the Bank of China, Xue Jingcheng [5641 6975 3397], and Liu Jinbao [0491 6855 1405] from Shanghai Trust Company, among others.

Lu Guoxian revealed that most Singapore banks concerned are very supportive of the plan to issue bonds, as is the Singapore branch of the Bank of China.

He said that details of the plan, such as maturing period, interest rates, and method of issue, will be worked out by the Shanghai municipal government. In addition, the Bank of China in Shanghai will send two representatives to Singapore next month to study all sorts of conditions and related factors on the spot in order to report to the municipal government.

He said the bonds-issue plan may be carried out next year, barring other difficulties.

12581

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FINANCE, BANKING

CHANGE IN BANKING STRUCTURE KEY TO FINANCIAL REFORM

Beijing JINGJI RIBAO in Chinese 8 Nov 86 p 3

[Article by Fan Di [5400 2769] and Sun Yongjian [1327 3057 0256]:
"Stockholding Should be the Thrust of Banking Reform"]

[Text]

1. The Only Choice in Banking Reform

The essential characteristic of the present financial system is that banks "eat out of the common pot." The only way to eradicate this problem is to come to grips with ownership. This is because only when banks become genuinely independent economic entities can finance come to life.

As long as banks remain government properties, they are removed from the market system; inevitably their conduct becomes insusceptible to market regulation. Even the commercialization of banks merely effects a change in form only. In fact commercialization causes banks to hand out bonuses indiscriminately and pursue short-term gains.

To turn existing state-owned specialized banks into private institutions is out of the question, as is transforming existing banks into a number of small and medium-sized local banks. Given these constraints, the only, and safest, approach to stop banks from "eating out of the common pot" and reform the ownership system is stockholding. By making local governments stockholders, we harmonize the goals of specialized banks with those of local authorities as much as possible and enable economic relations between the state and local authorities to run smoothly. As stockholders, enterprises can draw support from a formidable flow of capital, on the one hand, and develop an interest in the economic results of loans, on the other, thus minimizing their conflicts with banks. By making individuals stockholders, we link individuals' interests to those of banks and improve economic results. With inter-bank stockholding, banks become an organic network. This form of stockholding reflects the interests of different parties and is bound to promote macroeconomic regulation and microeconomic vitalization.

2. The Significance and Function of Bank Stockholding

Most basic to an economic system is its enterprise structure. Enterprise structure mainly means the organizational form enterprises take. Here it refers to two things: first, the legal organizational format of enterprises, and, second, their system of ownership. To reform the old enterprise structure, we should work at the ownership as well as the legal levels to endow enterprises with a genuine organizational form. Herein lies the significance of issuing stocks for specialized banks.

These are the major reasons why we make stockholding the thrust of the reform of specialized banks ownership. First, stockholding will not alter the essence of the public ownership of banks. Moreover, the government is free to control the conduct of specialized banks any time through its control over stocks. Second, state monopoly in banking militates against the unleashing of initiative in all quarters. When localities, enterprises, and individuals are allowed to own stocks in banks, an openness is introduced into the distribution of benefits that will help release the potential in each party. Third, after bank stockholding becomes a reality, specialized banks will assume a new organizational format and the entire banking system will develop naturally in accordance with objective demands. This will pave the way for the restructuring of the microeconomic financial basis and the reorganization of the macroeconomic financial system.

A stockholding system for specialized banks will benefit the overall restructuring of the economic system in obvious ways. First, it will provide the reform of specialized banks with a reliable starting point and looks certain to deliver tangible results. Second, bank stockholding will significantly expedite the formation and development of a capital market. Third, it will help the central bank achieve indirect macroeconomic financial control while allowing each and every grassroots bank to maximize its profits. Fourth, at present the head office of a bank controls its branches with administrative tools and via the allocation of targets. Bank stockholding will help put an end to this situation and enable the bank to exercise indirect, flexible control. Fifth, the growth of bank stockholding will inevitably push stockholding in industry to a new high and thus usher in a wave of stockholding in the Chinese economy.

3. Implementation Ideas for Stockholding in Specialized Banks

Make public ownership the centerpiece of the economy while allowing a multitude of ownership systems to coexist, and reconcile one another's interests for the sake of simultaneous development. Such is our general plan for the introduction of stockholding in specialized banks. Stockholding can take a variety of forms, ranging from stock conversion, stock augmentation, stock ownership, stock contracting, and stock leasing. As for new banks, they can raise capital by issuing stocks.

1) Stock conversion, which means converting the capital and fixed assets of the grassroots banks of existing specialized banks into a certain number of stocks. There are three possible forms of ownership of these stocks. One, the state is the sole stockholder. Two, the state owns some of the stocks

while grassroots banks and banks at the higher level own the remainder. Third, the stocks are owned not by the state but by the specialized bank in full. We find the second form of ownership most desirable.

2) Stock augmentation, which means increasing the number of stocks to be bought by local authorities, industry, enterprises, sectors, and individuals, thereby increasing a bank's capital stock and putting an end to the lack of coordination between rights and interests in the assets and debts structure of current banks. Since stockholders have the right to decide how a bank is managed and run, the greater the number of stockholders, the more favorable the circumstances for reconciling the rights and interests of all parties and preventing one particular force from monopolizing the bank's operations. And since the largest stockholder also takes the greatest risk and stands to benefit the most, increasing the number of stocks for all parties may result in the formation of commercial banks each with their characteristics: banks unique to a particular branch of the economy, enterprise banking syndicates, local banks, and regional banks, etc.

3) Stockholding. As a stockholding company, the head office of a specialized bank can exercise control over its grassroots banks by controlling stocks. Since the head office has only limited capital resources, it cannot own the stocks of its existing subordinate grassroots banks, but only the stocks of some selected banks. Under these circumstances, other types of independent, joint-stock banks may come into existence. Moreover, with specialized banks owning one another's stocks, horizontal banking syndicates that engage in inter-industry financial activities may emerge.

4) Stock contracting and leasing. After banks begin issuing stocks, a variety of institutions and individuals may become their stockholders. Be that as it may, the responsibilities, rights, and benefits of running a bank remain loosely related to one another. Particularly when loans made by a bank have to be written off, the collective and the state are still liable for the risk. This is a major hurdle on the way toward converting to a typical form of stock ownership. Solutions include individuals buying into the bank, managers contracting for stocks, stock leasing, and the issue of risk stocks.

5) Convening general meetings for stockholders and establishing a board of directors for the bank. All regular and risk stockholders are entitled to vote on major policy issues affecting the management of the bank. Seats on the board of directors should be apportioned in accordance with the number of stocks held. Government stockholders should be nominated by the central bank or its representatives, while the manager of the bank is to be appointed by the board. Stocks will be contracted or leased.

12581

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FINANCE, BANKING

OLD-STYLE SMALL PRIVATE BANKS FLOURISH IN WUHAN

Hongkong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 51, 22 Dec 86
p 10-11

[Article by Yang Hong [2799 3126]: "Old-Style Small Private Banks Are Flourishing"]

[Text] The Wuhan CHANGJIANG RIBAO reported in a front page lead article on 14 November 1984 that private financial institutions--old-style small private banks--had appeared at Jijiazui in Hankou, Hubei. This news aroused interest in certain circles both in China and abroad. Small private banks existed throughout China before liberation, but disappeared after the birth of the PRC. How their reemergence on the mainland will affect macroeconomic control of banking by the state is an important issue.

Two years later, the prosperity of these small private banks has caused people both in China and abroad to treat them with increased respect.

"Small Private Banks" Emerge as Needed

Since Wuhan has opened wide the doors of its three cities and freed its markets over the past few years, private household enterprises and small collective neighborhood enterprises have been springing up like bamboo shoots after a spring rain. These "two small economic entities" have closed the production and marketing gaps of state-owned enterprises, and their vitality has drawn increasing attention. But they are ultimately not "conventional" service targets of major state banks and, although their operators have crossed the thresholds of banks in large numbers, they have still been generally "discriminated against." Since banks have been hard put to handle their normal business with "large state-owned enterprises," they can seldom spare the time to notice "small enterprises." Moreover, there have not been adequate procedures of official county or group approval for "small enterprises" to borrow money from banks to start businesses, and banks have regretfully declined to deal with them.

Therefore, since September 1984, private financial institutions--urban loan agencies--which are funded and set up by collective and private household enterprises, have emerged as needed at districts in Hankou such Hanzhengjie, Jijiazui, and Dadongmen where the "two small economic entities"

are concentrated. Within 1 year, 16 urban loan agencies opened in the 3 cities which make up Wuhan. The "two small economic entities" raised funds for their own businesses, the urban loan agencies became much-visited places, private household and small neighborhood enterprises came in an endless stream to make deposits and take loans, and 7,192 accounts were opened. The people affectionately termed these small but flourishing financial institutions "old-style small private banks."

The "Lubricating Oil" of the "Two Small Economic Entities"

Two reasons why the "two small economic entities" like "small private banks" are that they do not have to line up to settle accounts and they can get loans overnight.

Most of the 16 "small private banks" are run by "former bankers." Guo Zhisheng [6753 4460 5116], director of a "small private bank" in Ha Hanzhengjie, is a retired staff member of the People's Bank and knows the condition of the more than 1,000 "two small economic entities" in Hanzhengjie like the back of his hand. Anyone who truly needs money has only to sit with him for a half an hour at the most in order to get it. The neighborhood-run Changjiang Department Store in Xin'an could not have opened an account as easily at a regular bank as at a small private one. A loan of as little as 10,000 yuan would have had to be investigated for 10 to 15 days. More often than not, by the time it got the money, "the roses would have faded and the tea would be cold." After this store opened an account at a "small private bank," it borrowed money 45 times in 1 year in amounts varying from 30,000 to 50,000 yuan, for a total of 2.08 million yuan. Its profits were twice those of the previous year, and it paid over 200,000 yuan in taxes to the state.

Shortly before 1 May, International Labor Day, in 1985, facing a market shortage of nonstaple port products, a "small private bank" provided an economic guarantee certificate to a private household enterprise, quick to pick up on the news, to bring over 30,000 kg of pork belly, tongue, and heart from Baoji, Shaanxi to sell to local residents. Within 20 days, the private household enterprise had made a profit and repaid its loan ahead of time.

Before liberation, provided they stood to gain, small private banks would even give loans to buy opium. Today's "small private banks" are indeed not bent solely on profit, but have "10 yes- and 10 no stipulations" on loan targets, and it would be difficult for operators who would violate the law to get even 1 cent from them.

From January to the end of October 1986, the 16 "small private banks" provided loans of over 27.5 million yuan to the "two small economic entities." This "lubricated" their wheels and enabled this previously nondirected money not only to not put pressure on the market but, instead, to become a force which promoted production and circulation.

A New Way To Raise Money

"Small private banks" have brought together money which the operators of the "two small economic entities" had on hand, hid in their pockets, or carried in moneybelts, linked loans to savings, and sought for their own balance. Without requiring even 1 cent to be spent by state banks, they have solved the major problem of accommodating the "two small economic entities" with funds. Moreover, their dynamic growth has also created a new way for the banking profession to raise money.

The 16 "small private banks" withdraw from circulation and deposited in the state Industrial-Commercial Bank approximately 100,000 yuan in cash every day. Moreover, their balance of savings over loans is also deposited in state banks to bear interest. This automatically greatly increases the circulating funds of the national treasury in state banks.

Statistics show that these "small private banks" had savings of 1.25 million yuan in state banks in January 1985. By October 1986, they had increased them to 13.6 million yuan and, from January to October 1986, had withdrawn from circulation a net sum of over 14.3 million yuan in cash.

The First To Open Capital Markets

On 3 May 1986, Hankou's Hanzhengjie also burst forth with the news that 15 "small private banks" had just put up signs saying "small capital discount loan market," and were starting to trade in funds.

These "money markets" are similar to country fair trade markets in that the providers and users can transact business with their own choice of equals. When "small private banks" have more savings than loans, they can put up signs and loan this money in Hanzhengjie, since the interest on loans is always higher than that on savings; when they are short of money, they can go there to "quench their thirst." The interest rates on loans are negotiated by both parties according to the current month's conditions.

The procedures are simple, convenient, and flexible in Hanzhengjie, with deals being clinched in the morning and the money being available for use in the afternoon. The longest period for discount loans is 1 month and the shortest 3 days, with the average being 12 days. The largest discount loans are for 700,000 yuan, and the smallest for 100,000 yuan; the highest interest rate is 4.8 percent, and is generally 4.62 percent.

These small capital markets have enabled "small private banks" to increase their logistic services to the "two small economic entities." The children's coats that are produced in the plant run by the Beijing Road Grade School are in great demand. In June 1986, the plant received 5 orders for a total of 35,000 coats, but it did not have enough funds and was unable to clinch the deals even after stalling for time. After the "money markets" opened, the plant promptly took a loan and fulfilled

these contracts. According to preliminary statistics, the plant was able to make a gross profit of 150,000 yuan on this clothing, and the "small private bank" also profited.

In the past 5 months or so, the "money markets" have opened 38 times and concluded 59 transactions worth over 21 million yuan. The "small private banks" have also made 710,000 yuan from this business.

As the first to open "money markets," the "small private banks" have taken an exploratory step for the Wuhan banking reforms. Since these "money markets" have been able to solve the contradiction of financial institutions being unable to conduct certain types of business, an important issue has been whether it would be possible to set up multilevel "money markets" to accommodate the funds of all banks. Li Maiqiu [2621 7796 4428], president of the Wuhan branch of the People's Bank, accordingly drew up a plan for "multilevel, multidirectional, multifunctional capital markets." Within 5 months, the "Wuhan rural capital discount loan market," the "township capital discount loan market," and the regional boundary-smashing "Wuhan capital market" have opened one after another. Pioneered by "small private banks," multilevel, (allpoints,) multifunctional capital markets have appeared in embryonic form in Wuhan.

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FINANCE, BANKING

BANK MANAGEMENT OF CIRCULATING FUNDS CRITICIZED

Xiamen ZHONGGUO JINGJI WENTI [CHINA'S ECONOMIC ISSUES] in Chinese No 5 86 pp 50-51, 46

[Article by Gao Luming [7559 6424 2494]: "The Issue of Unified Management of Circulating Funds by the People's Bank Needs To Be Reconsidered"]

[Text] It has been over 3 years since the People's Bank of China began the unified management of the circulating funds of state enterprises in June 1983. This issue needs to be restudied because many problems have cropped up in the initial practice.

I. Some Contradictions Cannot Be Solved in the Practice of Unified Management by Banks of the Circulating Funds of State Enterprises

As early as in the 1950's, China made it a rule that the circulating funds of state enterprises should be managed by treasury departments and supplied respectively by treasury departments and banks. In the circulating funds of state-run industrial enterprises, funds for constant use (namely, the fixed-quota circulating funds) were supplied by treasury departments and funds for temporary use were supplied by banks. Most circulating funds of commercial enterprises were supplied by banks. However, for a long period of time, treasury departments failed to allocate enough fixed-quota circulating funds to enterprises, resulting in the use of large amounts of bank loans. The current method of unified supply and management of circulating funds by the People's Bank is aimed at smashing the "big communal pot" in the previous fund management system, solving the problem of enterprises making too great use of their circulating funds, and encouraging enterprises to be conservative in the use of funds. However, judged by the practice in over 2 years, expected results have not been achieved and some problems still exist in the supply and management of enterprises' circulating funds.

Since the new fund management system was implemented, enterprises' circulating funds have come from three sources:

A. Taking from the fat to pad the lean--the redistribution of circulating funds allocated by the state. Judged by the amount of enterprises' circulating funds allocated by treasury departments since liberation, the proportion of such funds in state expenditures (if gross state expenditures

are set at 100) was over 3.5 percent every year before 1980 with 15.7 percent as the highest in 1962. After 1980, the proportion began to decline continuously. It was 3 percent in 1980, 2.1 percent in 1981 and 1982, and only 1 percent in 1983. After that, treasury departments stopped allocating such funds, which were then replaced by bank loans. According to figures published by the headquarters of the People's Bank, 82 percent of circulating funds obtained by industrial enterprises during the 4 years between 1979 and 1982 were bank loans and only 18 percent were state appropriations. It is thus clear that the proportion of state-appropriated circulating funds in enterprises' circulating funds has been plunging year after year. After deducting scrapped materials, inventory losses, and losses incurred by price reduction and system reforms, the remaining sum is even smaller. If this limited amount of state-appropriated circulating funds is to be redistributed between the fat and the lean--the state stipulates that those with less than 20 percent are "lean" and those with over 80 percent are "fat"--there will be some problems in actual implementation, not to mention the fact that the span between 20 and 80 percent is too wide and unfavorable for enterprises to compete with each other under similar conditions. According to the study of state enterprises in Xiamen City, some enterprises do have over 80 percent of circulating funds, but they are special cases. Most enterprises barely have any surplus funds for redistribution. Therefore, redistribution remains de facto empty talk.

B. Enterprises' accumulation funds as a supplement. The State Council stipulated that beginning 1984 enterprises should replenish their own circulating funds annually and that the sum total of state-appropriated and enterprises' own circulating funds must not be lower than 70 percent. This depends, first of all, on whether enterprises have sufficient sources of funds. According to the terms of the current profit-distribution system, enterprises' before-tax profits are used to pay loans from the People's Bank, the Construction Bank, and the state. After deducting several tax payments (and bank interest payments if they are to be deducted from profits), enterprises' profits will be divided into five parts: production development fund, renovation and transformation fund, new product trial-production fund, staff and workers' welfare fund, and staff and workers' bonus fund. Only the part of production development fund can be used to replenish their own circulating funds. Take Xiamen City's situation for example. Xiamen originally was a consumption city. Its industry had a relatively late start, its foundation is fairly poor and the level of profits retained by enterprises is not high. The current distribution of profits retained by enterprises is focused on two things: 1) technological transformation and the purchase of fixed assets and equipment and 2) staff and workers' welfare and the issuance of bonuses. As for those enterprises which are on the verge of loss, the stress is placed on ensuring "two funds"--bonus and welfare funds. Because of this, at present, very few enterprises would voluntarily replenish their circulating funds. If they would, the amount would be very little. Besides, relevant documents also stipulate that for those enterprises which have difficulties in replenishing their own circulating funds, no replenishment will be made temporarily or their replenishment will be reduced. Consequently, the shortage of enterprises' self-generated circulating funds has become still greater.

C. Bank supply. When enterprises fail to obtain the replenishment of state-appropriated circulating funds and fall far short of their own circulating funds, the only way left is for them to get bank loans. Besides, the State Council has decided that circulating funds should be supplied only by banks; therefore, it is only logical to turn to banks for money. The release of large amounts of bank credit funds in the past 2 years is also affected by this factor. Since 1979, industrial production enterprise loans released by banks have increased progressively every year. Especially since the unified supply of circulating funds by banks in 1983, the increase rate has been even higher. In 1983, the balance of industrial production enterprise loans increased from 52,672,000,000 yuan in 1982 to 59,109,000,000 yuan, or 13 percent. At the end of 1984, the balance increased to 88,409,000,000 yuan, a 49-percent rise over 1983. Even after deducting some abnormal factors of increase, this increase rate is still very high. Xiamen's situation is also the same. Before 1980, the state enterprises of Xiamen City had 70 percent of state-appropriated circulating funds and 30 percent of bank loans, which is a relatively normal ratio. After 1980, treasury departments stopped replenishing enterprises' circulating funds. In the past few years, industrial and commercial enterprises have increased substantially, their business volume has increased sharply, and bank loans have also shot straight up. Currently, of all enterprises' circulating funds, bank loans account for over 70 percent and enterprises' own circulating funds account for only 20 to 30 percent. This upside down phenomenon is getting worse. For instance, the Xiamen Construction Machinery Plant has doubled production many times in the past few years, but its own circulating funds still remain at 5 million yuan—the level of 80 years ago, while its bank loans have increased to 30 million yuan, equivalent to sixfold its own circulating funds. Enterprises get new loans to pay off old loans. Unlike the past when they paid off old loans before they could get new ones, now they just use bank loans constantly. Because large amounts of bank loans are used to meet enterprise needs for regular capital turnover, it has directly affected the recovery of bank loans. Inappropriate use and slow turnover of funds have become very serious problems. The "big pot" situation has not been fundamentally reversed either. If we say that in the past enterprises were eating from the "big communal pot" because fixed-quota circulating funds were supplied by treasury departments, we can also say that enterprises are eating from the "big communal pot" of banks instead of the "big communal pot" of the state because now circulating funds are supplied only by banks. There is not much change in essence. Under the old management system, when treasury departments failed to allocate enough fixed-quota circulating funds for enterprises, enterprises tried to squeeze banks. Now that the unified supply of banks has become legalized, banks have unshirkable responsibility, thus again falling into the position of being "squeezed."

In sum, the unified management of circulating funds by banks has many contradictions and problems that cannot be overcome in practice. We should face the reality and reconsider this issue.

II. Several Suggestions for Improving the Management System of Circulating Funds

In view of the above, I suggest:

A. Treasury departments should continue to replenish enterprises' circulating funds. In the present stage, publically-owned enterprises adopt the form of state ownership. The state is the representative of public ownership. The state owns the means of production of state enterprises. Theoretically speaking, the state should be held responsible for replenishing enterprises' circulating funds. With enterprises' financial rights expanding and their profit retention increasing annually in the past few years, it is also necessary to withdraw part of their production development funds to replenish their own circulating funds. However, under the current system where enterprises have no way to replenish themselves and self-retained funds are still greatly lacking, treasury departments have an unshirkable duty in this matter. Otherwise, the name will fall short of the reality if enterprises are given only an empty title of "state ownership" but denied financial support of the state. Therefore, I think that the part of circulating funds that is used by enterprises over a long period of time should still come from state appropriations. In order to increase enterprises' responsibility in using state-appropriated circulating funds, certain fees may be charged for the use of such funds or the state treasury may increase appropriations for banks' credit funds which will then be loaned to enterprises through banks.

B. Considering the insufficiency of state financial resources, there would indeed be many difficulties if we were to try to replenish the self-generated circulating funds of the large number of existing state enterprises. The solution is to suggest that treasury departments issue a definite amount of bonds for large key enterprises. For large central state enterprises which are included in major state development projects, the treasury department of the central government should issue intermediate- and long-term treasury bonds to raise funds and when such bonds mature, state revenue should be used to pay capital and interest. For key enterprises under the control of local governments, local treasury departments may issue local bonds and pay for them with local revenue when they mature. As for medium-sized and small state enterprises, they may raise funds by selling stocks to their staff and workers or issue stocks and bonds to the public. However, a definite ratio must be maintained so that the nature of state enterprises not be changed. Under this condition, we are bound to demand the establishment of the board of director system.

C. If we still have difficulties after adopting the above measures, the last resort is to give up some enterprises--i.e., let individuals become stockholders and join the management of some state enterprises which have little bearing on the national economy and the standard of living. The state should proceed from the viewpoint of macroeconomic control, strengthen microeconomic management, let go of insignificant matters, and let these enterprises free themselves from the predicament in which they are unable to carry out normal operations due to a shortage of fund and regain their chance at life. Of course, giving up a number of enterprises will not affect the dominant position of the ownership by the whole people in the state-run economy. On the contrary, it can better guarantee that the state will concentrate funds to be used in major construction, to develop key projects, and to consolidate the dominant position of public ownership. Thus, we would

we would not have too many things to tackle at the same time and would not lose control of one thing while attending to another.

In conclusion, I would like to mention that after an enterprise adopts the board of director system, the board of directors represents the right of ownership and major policy decisions of an enterprise are made by the board of directors and carried out under the supervision of plant directors. Because of this, the management of enterprises' circulating funds naturally falls into the functions of the board of directors. Since state-appropriated funds account for a large proportion of enterprise funds and state representatives have an absolute predominance in the board of directors, there is no doubt that state treasury departments have main responsibility in the management of circulating funds.

12302

CSO: 4006/98

FINANCE, BANKING

DISGUISED PRICE INCREASES SERIOUS PROBLEM

Shanghai JIEFANG RIBAO in Chinese 7 Oct 86 p 3

[Article by reporter Chen Yun [7115 5366]: "The Phenomena of Disguised Price Increases and Arbitrary Collection of Fees Become Serious; Major Price Discipline Violation Cases Increase as Compared to Last Year--The State Commodity Prices Administration Notifies All Localities To Conscientiously Carry Out General Commodity Price Inspection"]

[Text] The State Commodity Prices Administration discovered, through inspection, that since the beginning of this year, the phenomenon that some departments and units take advantage of the price reform to increase prices in a disguised manner and collect fees arbitrarily had become fairly serious. In view of this situation, the price administration recently issued a circular, urging all localities and departments to deal sternly with law and discipline violations in this year's general price inspection to protect consumers' interests and ensure the smooth progress of price reform.

According to statistics, in the first half of this year, China discovered and handled over 146,000 price discipline violation activities and cases of various natures. Among them, major discipline violation cases increased as compared to those of last year. There were as many as 2,900 such cases. Especially cases concerning the means of production accounted for 61 percent of major discipline violation cases.

Thanks to the ever growing price inspection campaign, incidents in which products under state plans are openly sold as above-plan products at higher prices have declined this year. However, such phenomena as varying one's tactics by changing the appearances of a product in order to raise its prices, expanding the range of floating prices, enlarging the scale of price increases for better quality, raising fee standards for supplies, and adopting the methods of the so-called "joint ventures" and "profit returns" to increase prices in a disguised manner and seek illegal gains have increased as each day goes by. This is more so when it comes to important means of production such as steel products, cement, machinery and electronic products, and industrial chemicals.

The excessive and arbitrary collection of fees is an issue causing strong repercussions among the masses. According to investigations, the phenomenon

of collecting arbitrary charges is very serious in such industries as transportation, medical care, culture and education, hotels, and guest houses. Many services which were originally included in free services now require a fee. The railway department of Shanghai Municipality collects service charges at the booth for advance ticket sales. Some hospitals in certain areas collect additional disinfection fees from patients who need shots and charge inpatients additional fees for washing their bed sheets. Especially some middle and elementary schools, night schools, correspondence universities, and various kinds of continuation study classes in certain areas charge more and more fees under a growing number of excuses. Such illegal activities as arbitrary fee increases have caused great discontent in society.

The statistics compiled in the first half of this year show that discipline violation activities and cases committed by retail and individually owned businesses account for 70 percent of such cases. The majority of these discipline violation activities and cases are about selling low-quality products at high prices or giving short measure; illegal gains involved in such cases are very little. However, since they directly infringe upon the interests of the masses, their influence is very bad.

In view of above problems, the State Commodity Price Administration recently issued a circular on the issues of attention in this year's general price inspection, urging all localities to conscientiously implement the circular of the State Council on this year's general tax, financial and price inspection and focus the general price inspection of the second half of this year on market retail prices and the prices of means of production while inspecting and consolidating various kinds of fees. The circular states that judged by the experience of recent years, the method of carrying out price inspections in accordance with the division of industries has yielded good results and may be adopted continuously. Departments in charge of industry, transportation, commerce, foreign trade, supplies, supply and marketing, food, finance, public health, culture and education, and tourism should make special arrangements for general price inspection and encourage subordinate enterprises and units to conscientiously carry out self and mutual inspections. As for the price inspection of collective and individually run businesses, all areas should assign a responsible department according to their current management system. The circular also states that in some areas the masses of peasants have many complaints about the phenomenon that products are upgraded to raise prices or downgraded to reduce prices during the procurement of farm products; therefore, it should be emphasized in the inspection.

12302

CSO: 4006/98

INDUSTRY

DEVELOPMENT OF TEXTILE INDUSTRY DISCUSSED

State Council Approves Policy

Beijing KEJI RIBAO in Chinese 3 Jan 87 p 1

[Article: "State Council Approves Policy To Vitalize Textile Industry; Encourages Textile Exports, Reduces Textile Taxes"]

[Text] In late December 1986, the State Council approved State Planning Commission, State Economic Commission, Ministry of Finance, and Ministry of Textile Industry policy measures pertaining to expanding textile exports in coastal regions, and their suggestions to lighten the tax burden of the textile industry, and has transmitted them to the people's governments in all provinces, autonomous regions, municipalities directly under the central government, and competent State Council departments for implementation.

The textile industry accounts for a relatively large proportion of PRC foreign trade exports, and will remain for some time to come the focal point for increasing exports and generating foreign exchange. The textile industry has long been plagued by businesses with such difficulties as low profit retention, insufficient capital funds, and inadequate capabilities for self-transformation and self-development, so it is hard for them to adapt to the demands of international market competition. In order to keep abreast of the new situation, the PRC will establish a set of export bases in 12 cities and other areas along the coast that are foreign trade oriented, and focused on multiple processing, and high- and medium-grade products.

For the purpose of encouraging textile exports, the state has formulated appropriate policy measures. Provisions of the measures include: patterning an approach based on circulation whereby a certain amount of RMB is extracted from the newly generated foreign exchange to serve as a special-purpose development fund for the exporting enterprises; improving the method of granting export awards by setting different award standards and foreign exchange retention ratios based on the degree of processing in order to encourage multiple processing and exports, having individual cities conduct experiments by linking exchange rates with purchase prices, wherein for all export products for which the sales price is increased or costs reduced as a result of improved quality or timely delivery, the proportional return will be increased based on the exchange rate; extracting a given proportion of

sales income to serve as new product development funds for the textile machinery and textile materials enterprises which undertake manufacture of key equipment in order to support development of the textile machinery (materials) industry; selecting a few enterprises to concentrate on producing for export and reducing their income tax; and increasing discount loans to be used to expand textile exports.

In order to help sustain development of the textile industry, beginning in 1987, taxes levied on the textile industry will be further reduced, and the whole textile industry nationwide will be exempted from paying the adjustment tax.

Opportunities and Challenges Outlined

Beijing KEJI RIBAO in Chinese 3 Jan 87 p 1

[Commentary: "Both Opportunities and Challenges Remain"]

[Text] The textile industry occupies an important place in the national economy. In the 1950's, many areas of the country laid particular emphasis on the role of the textile industry in withdrawing currency from circulation and accumulating funds during national industrialization; in the 1960's and 1970's, emphasis was on solving the problem of clothing a population of 1 billion; for the 1980's and into the future, the state has proposed new requirements for developing the textile industry in the PRC, and has devised an important strategic policy. The object is to expand textile exports to generate foreign exchange, and to vitalize all aspects of China's textile industry. Formulation of this important policy is extraordinarily significant.

In expanding textile exports, we must seize the moment during readjustment of the world industrial structure, and enable China's textiles to occupy a more important place in the international market. Industrially developed countries currently continue to make further advances in the direction of high technology and intensive funding, and one by one, labor-intensive industries which lose their competitiveness transfer to other countries. For example, as a result of a rise in the value of the yen, Japan accelerated readjustment of the industrial structure, closed, suspended, merged, or retooled traditional industries, and developed new, technical industries with a future. Some newly industrialized countries and regions, such as Singapore, have clearly proposed not to develop the textile industry; rather, they will concentrate their efforts on developing the electronics industry. This present change in the world industrial structure is a fine opportunity for us. On the other hand, we note that some of the developing nations in the Asia and Pacific region also are making use of this opportunity to develop their textile industries. This is a challenge for us. Therefore, we must seize upon the present change in the world industrial structure, and enhance our own competitiveness in the international market.

Expanding textile exports is related to the issue of sources of foreign exchange required for modernization in the PRC. Foreign exchange has become an important restricting factor affecting China's modernization. It just so happens that textiles are precisely our greatest export commodity, in terms of quantity, for generating exchange. The amount of textiles exported from the PRC in 1986 (including clothing and silk) was 18 percent greater than in 1985, accounted for one-fourth of total exports nationwide, and replaced petroleum as the PRC's No 1 export commodity. Developing textiles for export is characterized by low investment, generation of a lot of exchange, quick profits, minimal conflicts with domestic sales, and comparatively strong international competitiveness. As such, henceforth we must pay even more attention to developing the textile industry. In particular, the coastal regions, which have developed foreign trade oriented toward the outside, must give more prominence to the textile industry, which produces products for export, and they must devote even more of their limited funds toward this end.

Expanding textile exports also is related to the issue of comprehensive vitalization of the PRC textile industry itself. Placing the textile industry in the international market where it has to rough it, contest, contend, and compete is a good way to steel it. This can forcefully propel the textile industry products, techniques, and management to keep up with world standards, advance the quality of the entire industry, and promote domestic sales. The textiles now exported by the PRC remain weak in terms of quality and grade. From now on, the textile industry, in taking on an export mission, must change from the previous course of concentrating on expanding quantity to emphasizing improved quality and grade. This will force the textile enterprises to accelerate the pace of technical transformation, to improve management and administration, and to change "victory in quantity" to "victory in quality." The significance of this for vigorously developing the textile industry in the PRC is extremely great.

12513/12851
CSO: 4006/309

AGRICULTURE

JIANGSU WATER CONSERVANCY MANAGEMENT REGULATIONS

Nanjing XINHUA RIBAO in Chinese 24 Sep 86 p 2

[Regulations passed at the 21st Standing Committee Session of the 6th Jiangsu Provincial People's Congress, 9 September 1986: "Jiangsu Provincial Regulations on Water Conservancy Project Management"]

[Text] Announcement of the Standing Committee, Jiangsu Provincial People's Congress

The "Jiangsu Provincial Regulations on Water Conservancy Project Management" were passed on 9 September 1986 by the 21st Standing Committee Session of the 6th Jiangsu Provincial People's Congress. It is announced now and will take effect on 1 January 1987.

Standing Committee, 6th Jiangsu Provincial People's Congress
15 September 1986

Chapter I General Principles

Article 1 In accordance with the "Constitution of the PRC" and the provisions of relevant national rules and regulations, these regulations have been formulated in order to strengthen the management of water conservancy; ensure project completeness and safety; obtain the comprehensive benefits of water conservancy--flood prevention, land drainage, irrigation, water supply, and shipping; safeguard the lives and property of the people and the property of the state; and promote the development of socialist construction.

Article 2 These regulations apply to all large, medium, and small water conservancy projects and installations within the administrative jurisdiction of Jiangsu, including waterways, lakes, dikes, reservoirs, culvert gates, pumping stations, hydroelectric plants, irrigated areas, irrigation ditches, and embankments.

Article 3 Water conservancy projects are important means to ward off natural disasters and promote economic and social development. Every level of people's government should strengthen its leadership of water conservancy management and be responsible for organizing and supervising the implementation of these regulations.

Article 4 Water conservancy departments in the people's government above the county level are the agencies responsible for water conservancy projects. They may set up water conservancy management organs according to the needs of project management. The principle duties of departments in charge of water conservancy management are: in compliance with national law, rules, and regulations and the provisions of these regulations, take responsibility for the management, repair, and maintenance of water conservancy projects; maintain projects in good condition and prevent actions which damage them; formulate and implement plans for controlling water conditions, ensure the normal operation of project equipment, and provide service to industrial and agricultural production, transportation, shipping, and urban and rural people in their everyday life; strengthen administration and management, receive compensation for supplying water, and develop diversified production; improve the political and professional quality of workers and their level of scientific management.

Article 5 Keeping water conservancy installations in good condition and safe is the duty of every citizen. All organs, organizations, military units, enterprises, institutions, urban and rural collective economic organizations, and individuals should obey these regulations.

Chapter II Project Protection

Article 6 In order to ensure the safety of the project and meet the needs of flood emergency work, the management jurisdiction of water conservancy projects is stipulated as follows:

1. Management jurisdiction over principle waterways in river basins: The surface of the bank facing the water, overgrown tiny islands, sandbanks, and the riverbed are in the management jurisdiction of the waterway.

2. Management jurisdiction of dikes on principle rivers and lakes in river basins:

- i. Hongze Lake: On the side facing the water from Laoduitou, Xuyi County, to the Second River lock section, 10 meters from the foot of the tree breakwater; from the Second River lock to the Matouzhen section, (the water surface of) the tributary parallel to the dike is the boundary. On the side away from the water, where there are parallel tributaries, the parallel tributary (water surface) is the boundary; where there is no parallel tributary, 50 meters from the foot of the dike.

- ii. Luoma Lake: Where there is a tree breakwater on the side facing the water, 10 meters from the foot of the breakwater; where there is no tree breakwater, 30-50 meters from the foot of the dike. On the side away from the water: from the east dike to the edge of the Zipai River; from the south dike to the edge of the Middle Canal; 40 meters from the foot of the west dike; and from the north dike to the edge of the parallel tributary.

- iii. Li Canal (at high water): On the side away from the water of the east and west dikes, 30-50 meters away from the foot of the dike. Where there are

tree breakwaters on the section of the west dike facing the lake, 50 meters from the foot of the breakwater. Where there are no tree breakwaters, the surface of the lake 100-200 meters from the foot of the dike.

iv. Waterways entering the Chang Jiang: on the side away from the water, 50 meters from the foot of the dike.

v. New Yi River: On the side away from the water, from the south dike to the edge of the small river south of the Yi and from the north dike to the edge of the small river north of the Yi (overflow sections cannot be smaller than 30 meters). Where there are no small rivers north or south of the Yi, 30-50 meters from the foot of the dike.

vi. Main North Jiangsu Irrigation Canal: On the side away from the water: on the north dike, where there are drainage ditches, to the edge of the drainage ditch; where there are no drainage ditches, 30 meters from the foot of the dike. On the south dike, where there is a parallel tributary, the parallel tributary (water surface) is the boundary; where there is no parallel tributary, 30-50 meters from the foot of the dike.

vii. Middle Canal, New Shu River, Main Shu River, Yi River, and the Picang flood diversion channels: On the side away from the water, 20 meters from the foot of the dike.

viii. Weishan Lake: On both sides of the dike, 60 meters from the foot of the dike.

ix. Huaishu River: On the side away from the water, 50 meters from the foot of the dike.

x. Second River: On the side away from the water, where there is a parallel tributary along the east dike, the parallel tributary (water surface) is the boundary; where there is no parallel tributary, 50 meters from the foot of the dike.

xi. Chang Jiang: On the side away from the water, where there is a parallel tributary, the parallel tributary (water surface) is the boundary; where there is no parallel tributary, 10-15 meters from the foot of the dike.

xii. Tai Lake: On the side facing the water, 20 meters from the foot of the dike. On the side away from the water, where there is a parallel tributary, the parallel tributary (water surface) is the boundary; where there is no parallel tributary, 10-15 meters from the foot of the dike.

xiii. Sea walls: On the side facing the water, 100-200 meters from the foot of the wall; on the second line of sea walls, 20-100 meters from the foot of the wall. On the side away from the water, where there is a river parallel to the sea wall, the river (water surface) is the boundary; where there is no sea wall river, 30-50 meters from the foot of the wall.

For dikes located on those sections of the above waterways which are lined by towns, under the condition that necessary engineering measures are taken and

flood safety is guaranteed, the management jurisdiction on the side away from the water must not be less than 5 meters from the foot of the dike.

3. Management jurisdiction for large and medium culvert gates, reservoirs, and irrigated areas.

i. Large culvert gates and pumping stations: Both upstream and downstream along the riverway and dike, 500-1000 meters; on both the right and left sides, 100-300 meters.

Medium culvert gates and pumping stations: Both upstream and downstream along the riverway and dike, 200-500 meters; on both the right and left sides, 50-200 meters.

When the management jurisdiction for various structures on key water conservancy projects has already been clearly designated and divided among water conservancy departments and other departments, such jurisdiction will not be changed. When jurisdiction has not been clearly designated, concerned departments will, based on the actual situation and through consultation, designate specific jurisdiction and report their decision to the people's government above the county level for approval; this is done on the condition that the safe management of water conservancy installations is not affected, and with consideration of other needs. Management jurisdiction should be clearly stipulated at the same time that design of new projects is being approved.

ii. Large and medium reservoirs: The reservoir area within the projected highest flood water level and 100-200 meters away from the foot of the dam on the side away from the water. The management jurisdiction for mountaintops and hills at either end of the dam can be designated by concerned city and county people's governments, based on the needs of safe management.

iii. Irrigated areas larger than 100,000 mu: On the side away from the water, 3-5 meters from the foot of the slope on main channels; 1-3 meters from the foot of the slope on branch channels.

4. City and county people's governments, based on actual conditions, will stipulate the management jurisdiction for water conservancy projects on other waterways and dikes and the specific range of management jurisdiction on water conservancy projects contained in Sections 2 and 3 above. Article 7 Land belonging to the state within the jurisdiction of water conservancy management will be managed and used by water conservancy units. Such land, when used by other units or individuals with the prior permission of people's governments above the county level, may continue to be used by the original unit or individual. The ownership and usage rights of land belonging to collectives do not change. But all of the above units and individuals undertaking production and business must submit to the safety supervision of water conservancy management units. They must not engage in any activities harmful to water conservancy projects and installations.

Article 8 In order to protect the safety of water conservancy installations

and achieve the expected project results, all units and individuals must obey the following provisions:

1. It is forbidden to damage culvert gates, pumping stations, hydroelectric plants, and other structures; machine and electrical equipment; and hydrology, communications, power supply, and observation installations.
2. It is forbidden on dikes and water channels to dig gaps, wells, and pits, collect soil, bury people, build kilns, reclaim land for cultivation, graze animals, and other activities which destroy stone slope protection and tree and grass cover.
3. It is forbidden to kill fish through explosions, poison, or electricity in reservoirs, lakes, rivers, irrigation channels, and other bodies of water.
4. It is forbidden to build structures, place obstructions, or plant tall-stemmed plants which affect the movement of water in or alongside waterways and channels which serve as floodways, receive water drained from fields, or supply water for irrigation.
5. It is forbidden to dump onto sandbanks and into lakes, reservoirs, waterways, channels, and other bodies of water the following: trash, waste residue, agricultural chemicals, unwanted materials, acidic and basic liquids, extremely toxic waste liquids, and other toxic and harmful contaminated water and waste materials whose disposal is prohibited by the "Environmental Protection Law" and the "Water Pollution Prevention Law."
6. Within the jurisdiction of water conservancy management, it is forbidden to erect buildings, build encircling walls, stack up materials, dig out sand and dirt, bury pipes or electrical cables, or build other structures without authorization. Explosions set off during production or construction must not endanger the safety of nearby water conservancy projects.
7. It is forbidden to put up dikes around fields or build dams without authorization on sandbanks, floodways, lakes, and water reservoir areas in or along waterways.
8. When it has rained, it is forbidden for tractors, other mechanized vehicles, and animal-drawn carts to travel on muddy roads on top of dikes and water reservoir dams.
9. It is forbidden to arbitrarily demolish or, without authorization, to tear down, sell off, transfer, or lease farmland water conservancy projects and installations.

Chapter III Project Management

Article 9 Every level of people's government should organize annual inspections of water conservancy projects, carrying out repair, maintenance, reinforcement, or replacement of damaged project installations. The necessary expenses should be included in annual financial plans.

Article 10 The management of water conservancy installations should integrate centralized management with management by different levels, and professional management with management by the masses, according to the size of the benefits and the range of its influence. Provincial water conservancy departments will be responsible for managing river basin water conservancy installations which benefit and affect more than two cities. City water conservancy departments will be responsible for managing water conservancy projects which benefit and affect more than two counties and are within one city. County water conservancy departments will be responsible for managing water conservancy projects which benefit more than two townships within one county. Township water conservancy stations or villager committees will be responsible for managing water conservancy projects benefiting one township.

Some water conservancy projects managed by the province, cities, or counties may entrust management to a lower-level water conservancy department, in accordance with the unified standards and management needs of the project. Collective economic organizations may also contract with specialized teams and households to manage newly built small water conservancy projects according to the unified standards and regulations for the project.

Article 11 Water conservancy projects built by farms, factories, mines, enterprises, institutions, and the military must be in accordance with local requirements for flood prevention, soil drainage, and project management. The unit that built the project is responsible for its management, repair, and maintenance.

Article 12 Where embankments are used as public roads, transportation departments are responsible for the management, repair, and maintenance of the road surface (including a 50-cm shoulder on each side of the surface). Transportation departments are responsible for repairing and maintaining public road bridges over culverts; water conservancy departments and transportation departments are jointly responsible for major repairs.

Article 13 Transportation departments are responsible for the management of navigation channels in waterways. In principal river basin waterways, water conservancy departments are responsible for repairing and maintaining dike slope protection projects on waterways which primarily serve as floodways and to receive land drainage. Transportation departments are responsible for repairing and maintaining dike slope protection projects on waterways which primarily serve as navigation routes. Water conservancy departments and transportation departments are jointly responsible for repairing and maintaining dike slope protection projects on waterways which are floodways, receive land drainage, supply water for irrigation, and which also serve as navigation routes.

The repair and maintenance of dike slope protection projects on other waterways will be determined by the local city and county people's governments according to actual conditions.

Article 14 The management of water conservancy projects on a province, city, county, or township border should be implemented in strict accordance with the relevant national or higher-level people's government regulations or through

bilateral consultation. No one side may act as it sees fit and harm the interests of the other side. Disputes should be dealt with through bilateral consultation. Cases which cannot be settled should be sent to higher levels of the people's government for a decision.

Article 15 There should be strict control of project installations and structures which, out of definite production and work necessity, must be built within the jurisdiction of water conservancy management. The unit doing the construction must present a written application and report to water conservancy departments, according to the limits of authority of each level of management, detailing the selected site, the scale of the project, the form of the structure, and the area it will occupy. Only after the report has been examined and approved will the design proposal be sent to higher responsible organs. When the chosen site affects public road, navigation, and other relevant departments, the report will be examined for approval by water conservancy departments along with transportation departments and the other departments concerned.

Article 16 Large-scale water conservancy projects can, based on need and with the approval of the Jiangsu people's government, set up public security organs to protect the safety of the installations in accordance with the law. Projects which have been designated as major security risks by the state will be guarded by armed military police.

Article 17 County and township (town) people's governments should strengthen management of small farmland water conservancy installations. Inspection, repair, and maintenance should be scheduled at regular intervals. This will guarantee that installations remain in good condition and ensure that the needs are met of farmland irrigation, flood prevention, and land drainage.

Article 18 Based on need, townships (towns) with a rather large number of water conservancy installations can set up water conservancy stations, representing the county water conservancy department. Guided by the county water conservancy department and the township (town) people's government, they will take specific responsibility for the construction and management of township (town) farmland water conservancy.

Chapter IV Flood Prevention and Removing Obstructions

Article 19 The provincial flood and drought prevention headquarters shall examine for approval principle plans concerning control of water conditions for major waterways in river basins, the warning water level and guaranteed water level of rivers and lakes, and plans for the control and use of large and medium reservoirs. Major plans for flood emergency work and the release, diversion, and detention of floodwater will be implemented after approval by the Jiangsu people's government or, at the request of the province, the State Council. Other plans for controlling and using rivers and reservoirs will be examined for approval by city and county flood and drought prevention headquarters. No unit or individual may without authorization change or hinder the execution of the above plans.

Article 20 Flood prevention and soil drainage projects within urban zones must be in accord with the plan for comprehensive development and use of the Chang Jiang, rivers, lakes, and the ocean. Urban construction departments should carry out construction and management, according to the requirements of flood prevention and draining soil. The projects should all be included in the overall urban planning.

Before the new flood prevention and soil drainage system has been completed, new industrial and residential areas must not arbitrarily disrupt, block, or fill in the original flood prevention and soil drainage system.

Article 21 Within the jurisdiction of water conservancy management, production installations, facilities for everyday life, and various other structures must be torn down within a given period if they endanger the safety of water conservancy projects and affect emergency flood prevention through their location at dangerous sites or places seriously affecting flood safety. Structures located elsewhere should be torn down by stages and in groups, in line with urban, waterway control, and land development and use plans. Specific measures will be drafted by provincial water conservancy departments and implemented after approval by the Jiangsu people's government.

Article 22 Dikes enclosing land, embankments, slag heaps, reeds, and other obstructions to the flow of water through waterways which have floodways, receive land drainage, and supply water for irrigation, should be removed within a given period according to the principle that "whoever created the obstacle should get rid of it." Those docks, bridges, other structures, and river-spanning engineering installations which were not designed according to the standards of flood prevention and which seriously block or hinder the flow of water must be rebuilt in accord with the requirements of flood prevention or torn down by the units which built them or use them.

Article 23 During a flood period, boat traffic on waterways and lakes whose water level has passed the warning stage and vehicle traffic, production, construction, and other activities on top of dikes must all be in accord with the requirements of flood safety and must submit to the centralized commands of flood prevention departments.

Chapter V Business Management

Article 24 Water conservancy management units should strengthen business management, receive compensation for supplying water, and achieve full results from water conservancy projects, in order to make rational use of water and soil resources within the management jurisdiction of water conservancy; gradually provide the necessary funds for operational management, major repairs, and replacement; and reduce the burden on the state and on the people.

Article 25 Industry, agriculture, and all other water-using units and individuals supplied with water by water conservancy projects must use water systematically and sparingly, and pay water conservancy management units for the water in accord with state provisions. Industrial and commercial enterprises, state farms, rural households, and other units, which clearly

benefit from being within the flood prevention and land drainage jurisdiction of water conservancy projects, should pay project maintenance fees to water conservancy management units in accord with state provisions. Measures to implement this will be formulated by provincial water conservancy departments along with relevant departments, and will be put into effect after approval by the Jiangsu people's government.

Article 26 On the condition that water conservancy projects are properly managed and used, water conservancy management units should, in strict adherence to each provision of these regulations, make full use of the water and soil resources, equipment, and technology within their management jurisdiction, so that, in suiting local production to local conditions, they diversify production activities, increase their income, and gradually increase their self-sufficiency. Chapter VI Rewards and Punishments

Article 27 Each level of people's government or responsible water conservancy departments should give moral encouragement or material rewards to units or individuals achieving any of the following:

1. Model adherence to national law and these regulations, and outstanding achievement in protecting and managing water conservancy installations;
2. In emergency flood operations, protection of the property of the state, people's lives, and their property from serious damage;
3. Meritorious protection of water conservancy installations through struggle against illegal behavior endangering water conservancy projects;
4. Outstanding achievement in protecting water resources, implementing plans for using and conserving water, and lowering the costs of industrial and agricultural production;
5. Outstanding achievement in planting trees and grass and preventing soil erosion;
6. Intensive study of project management S & T, leading to major innovations or new inventions;
7. Outstanding achievement in actively developing diversified production, practicing strict economy, and efforts to reduce the burden on the state and people.

Article 28 In minor cases, units and individuals violating national law and the relevant provisions of these regulations will be ordered to pay for the damage or pay fines, administrative disciplinary measures will be taken, and the illegally obtained land and goods will be recovered. In serious cases constituting crimes, judicial organs will render punishment according to the law.

1. Whenever state-owned and collective-owned units, township (town) and village enterprises, state employees, and rural and urban residents, without legal permission, illegally occupy land within the jurisdiction of water

conservancy management and build new work installations, facilities for everyday life, and other structures, water conservancy departments along with land management departments shall order the return of the illegally occupied land, dismantle or confiscate within a given period the production and living facilities and other structures newly built on the illegally occupied land, and levy fines. The responsible personnel in the unit and state employees shall be subject to administrative disciplinary measures from their unit or higher organs.

When there have been illegal sales, leases, or other forms of illegal transfer of land within the jurisdiction of water conservancy management, the return of illegally occupied land will be ordered, illegal gains will be confiscated, within a given period newly built structures and other installations on the above land will be dismantled or confiscated, and the parties involved can be fined. The responsible personnel will be subject to administrative disciplinary measures from their unit or higher organs. Certificates approving the illegal occupation of land are invalid when there was no right to give permission or when that right was exceeded. Giving and accepting bribes is a violation of criminal law, and will be punished according to the relevant provisions of the "Penal Code."

2. Units or individuals who have created obstructions to the movement of water in waterways which have floodways, receive land drainage, and provide water for irrigation, thereby affecting the safety and results of projects, will be ordered to remove the obstruction within a given period. Those who cause damage will be ordered to pay compensation or fines. The responsible personnel in the unit will be subject to administrative disciplinary measures from their unit or higher organs. When the consequences are serious enough to constitute a crime, the criminal responsibility will be assigned according to the law.

3. When there is damage to water conservancy installations or auxiliary equipment, destruction of forests and grass cover, theft of flood emergency materials and equipment, or actions which otherwise endanger water conservancy projects, according to the severity of the offense, units responsible should have to pay compensation and personnel and parties should pay fines; there should be administrative disciplinary measures and, when warranted, assignment of criminal responsibility according to the law.

Article 29 Education through criticism and administrative disciplinary measures should be given to those who obstruct or beat water conservancy management personnel legally carrying out their duties, deliberately create water conservancy disputes, force water conservancy management personnel to change project control and operation plans, or resist orders to store, release, or detain floodwaters. In serious cases, criminal responsibility should be assigned to persons instigating the trouble according to relevant provisions of the "Regulations on the Management and Punishment of Public Disorder" or the "Penal Code."

Article 30 The personnel in every level of water conservancy departments and project management units must loyally perform their duties and carry out in an exemplary fashion the laws, rules, and regulations of the state. Monetary

punishment or administrative disciplinary measures should be levied, according to the severity of the case, against personnel in charge within units and responsible personnel who inflict harm upon the interests of the state and people through abuse of power, graft, operations in violation of the rules, and neglect of their duties. When the violation of criminal law constitutes a crime, the criminal responsibility will be assigned according to the law.

Article 31 Water conservancy departments in the people's government above the county level shall make the decisions and be responsible for enforcing, within a given time, the dismantling or confiscation of various structures, payment of compensation, levying of fines, confiscation of illgotten gains, and other punishments against violators of these regulations. Units and individuals who disagree with the handling of their cases may appeal to the local people's court within 15 days of the day after they received the announcement of the decision on their case. Water conservancy departments may request the people's court to enforce compliance when the period has passed without an appeal and there still is no compliance. Compensation for damage and fines which come under the category of monetary compensation will be used by water conservancy departments for project repair and maintenance; those which come under the category of monetary fines will be turned over to local financial departments.

Chapter VII Supplementary Articles

Article 32 City and county people's governments can formulate measures to implement water conservancy management, based on these regulations and in light of actual local conditions.

Article 33 These regulations take effect from 1 January 1987. They prevail over any conflicting provisions of previous provincial regulations.

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AGRICULTURE

RENMIN RIBAO ON WATER, SOIL CONSERVATION

HK120331 Beijing RENMIN RIBAO in Chinese 10 Feb 87 p 1

[Report by reporter Chen Jian (7115 0256): "A New Situation Arises In Our Country's Water and Soil conservation"]

[Text] A result of the reform, a new situation of attaching importance to priority and effectiveness has arisen in our country's arduous water and soil conservation work. The meeting of the National Coordination Group For Water and Soil Conservation which was convened yesterday (9 February) summed up the work of water and soil conservation in 1986 and pointed out the following main situations:

—The water and soil conservation work in the middle reaches of the Huang He has been included in the state and local plans and will become the priority of the water and soil conservation in the whole country. This area has had a number of counties achieve remarkable results in the water and soil conservation.

—The eight priority areas of water and soil conservation funded by the state in the whole country develop rapidly. Last year, a total area of 20,000 square kilometers was brought under control.

—Using material means to support labor accumulation. From 1986 to 1990, the state will use 5 million kilograms of cotton and 10 million meters of pure cotton cloth to launch projects to provide jobs by way of relief programs, in an effort to specially harness the small rivers in the poor areas. Last year along,, a total area of 800 square kilometers was brought under control.

—The pattern of peasant households, integrated bodies and specialized teams contracting for water and soil conservation projects develops rapidly. The project of harnessing small river reaches is being undertaken in 26 provinces, municipalities and regions. Of the about 5,000 small rivers being harnessed, the areas brought under control last year accounted for about 50 percent of the total areas brought under control last year in the whole country. The activities of mobilizing thousands of households to harness the numerous small rivers just began. Along the upper and middle reaches of the Huang He across seven provinces and regions, 38 percent of the total peasants households have undertaken the contracts of harnessing the small rivers. The number of

contracted households has reached over 4 million, looking after about one-third of the unharnessed rivers.

--A kind of newly developed plant with both ecological and economic effectiveness, *hippophae rhamnoides* is being rapidly promoted in northwest and north China, the western part of Liaoning Province, and other places.

The head of the National Coordination Group for Water and Soil Conservation Qian Zhengying pointed out: A fundamental experience gained in the water and soil conservation work over the last few years is that if a locality attaches importance to the work and coordinates the work well, the locality can score good results. Otherwise, the results will not be that good.

The data of the meeting show that although remarkable achievements have been made in the water and soil conservation work of our country over the last few years, the tasks are still rather arduous. Particularly, the new soil erosion resulting from the construction in some areas is still rather outstanding, which not only weakens the achievements in water and soil conservation work but also fundamentally threatens economic and social development. Therefore, we must attach great importance to this state of affairs.

It is disclosed at the meeting that in order to put the work of water and soil conservation into the orbit of legal system, departments concerned have begun to draft a "Water and Soil Conservation Law."

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AGRICULTURE

STATE PLANNERS PROMOTE GRAIN OUTPUT INCREASE

OW120615 Beijing XINHUA Domestic Service in Chinese 0302 GMT 11 Feb 87

[By correspondent Liu Yaochuan]

[Text] The State Planning Commission has decided to promote China's stable agricultural growth, particularly the development of grain production, in 1987 and regards it as an important task within its own grasp.

According to the State Planning Commission's Agriculture and Forestry Bureau, the general goal of China's agricultural development this year is to further improve the excellent situation in agriculture and, while striving hard to increase grain production, comprehensively develop forestry, animal husbandry, sideline production, fishery, and the production of cotton, edible oil, sugar, tobacco, and other industrial crops. It is necessary to increase total agricultural output value faster than last year, and strive hard to reach, or get close to, the 1984 level in total grain output. We must also produce more than 4.25 million metric tons of cotton, which is the average annual output set in the Seventh 5-Year Plan. It is also necessary to increase the output of oil-bearing, sugar-bearing, and other industrial crops, and the output of meat, aquatic, and other products. Along with the comprehensive development of the rural economy, out peasants' incomes must also correspondingly rise. Fulfillment of the 1987 agricultural production plan is of great significance in guaranteeing that people improve their living conditions, promoting sustained growth of the national economy, and develop an excellent situation in political stability and unity.

The State Planning Commission has attached great importance to the question of increasing investment in agriculture, strengthening agricultural construction, and increasing the aftereffects of agricultural development. The agricultural capital construction investments earmarked in the 1987 state budget increase by nearly 40 percent, a big, almost unprecedented, margin. The investments increased by the state in 1987 will be mainly earmarked for constructing large water conservancy projects, building agricultural bases for marketable grain, and constructing important development projects.

To achieve fruitful results in supporting agriculture, the State Planning Commission, in accordance with the State Council's decision, is closely coordinating with the State Economic Commission, relevant industrial and foreign trade departments to guarantee supplies of chemical fertilizer,

insecticide, plastic film, diesel oil, and electric power, which are most urgently needed in agricultural production. Initial plans show 88 million metric tons of chemical fertilizer may be earmarked for agriculture, up nearly 10 million metric tons from last year. Some 220,000 metric tons of insecticide will be produced for agriculture, and imports are planned to meet demand. Some 267,000 metric tons of plastic film have been made available, while 8.46 million metric tons of diesel oil are on hand, up by 1.1 million metric tons from last year. Currently, preparations for plowing, sowing, and spring farming are about to begin in all rural areas. The State Economic Commission has established an industry-supporting-agriculture coordinating leading group to exclusively grasp production, delivery, and marketing of supporting-agriculture products. Petroleum, chemicals, machinery, economic affairs and trade, commerce, railway, transport, and other departments are seriously accomplishing all their work in supporting agriculture.

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AGRICULTURE

XINHUA COMMENTATOR ARTICLE ON SPRING PLOWING

OW081119 Beijing XINHUA Domestic Service in Chinese 0846 GMT 7 Feb 87

[XINHUA Commentator's Article: "Go Down to the Grass-Roots Units to do a Solid and Good Job in Leading Spring Farming"]

[Text] Beijing, 7 February (XINHUA)--At present, spring ploughing, spring sowing, and tending to summer grain crops are taking place one after another across China. As the saying goes "the whole year's work depends on a good start in the spring," so the whole year's bumper harvest in agriculture depends to a great extent upon a good job done in spring farming.

Judging from the situation reported by all localities, we believe that the key to doing spring farming well lies in bringing into full play the initiatives of all departments concerned and paying great attention to vulnerable spots. Since all localities have implemented the guidelines laid down by the CPC Central Committee's rural work meeting last winter, the tendency to overlook agriculture and grain production that once occurred in some localities has been halted. Those localities have raised their awareness of the fundamental role of agriculture and the strategic importance of grain, generally strengthened their leadership over agriculture, and committed more labor and funds. The overall agricultural situation is good. However, attention should be drawn to those comparatively more conspicuous vulnerable spots still existing in current spring farming. For instance, chemical fertilizer, diesel oil, and other goods and materials for farming are insufficient. As a result of droughts in some localities during the period of autumn sowing last year and shortages in fertilizer and moisture in the soil in other localities, about one-half of the winter wheat seedlings are not growing as well as those planted in the same period last year. The policy to encourage grain production has not been effectively implemented in some localities. These vulnerable spots, if not eliminated in time, will directly obstruct this year's spring farming and grain harvest.

Agriculture is the foundation of China's national economy, and grain production is the foundation of agriculture. Though our grain production increased by about 10 million metric tons last year, it has not yet been restored to the 1984 level and is not enough to meet the needs of the development of the national economy and the improvement of people's living standards. This year's grain production is very heavy. We must strive by all means to accomplish and overfulfill the state plan. Close attention must be

paid to spring farming from the outset. If we succeed in spring farming, we will be in a much better position to reap a bumper harvest for the whole year.

In order to exercise good leadership over the current agricultural production, we must find out what is on the peasants' minds and what they require. This will call for our cadres to go down to the grass-roots units to investigate and study and do solid work. They must find out whether chemical fertilizer, diesel oil, and other goods and materials badly needed by the peasants have been taken care of; whether the peasants have gotten all the chemical fertilizer and diesel oil supplied by the state; whether management measures have been taken for those wheat crops that are not growing well; whether policies for encouraging grain production such as the policy of linking the supply of fertilizer and diesel oil with grain output and the policy of paying a deposit for grain purchases, have been properly implemented; and whether the peasants' initiatives for production have been brought into full play, etc. All these must be clearly known, so that corrective measures can be taken. When we call for strengthened leadership over spring farming, we do not appraise our work by the number of circulars issued or the number of meetings held. Rather, our appraisal is based on whether effective measures have been taken to deal with local vulnerable spots and on how many of these vulnerable spots have been taken care of.

Farm work must be done in the right season. It is hoped that all localities will lose no time in taking actions.

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AGRICULTURE

DETERMINATION METHOD OF NEUTRALIZING ANTIBODIES WITH BLENDED SERUM IN
IMMUNITY MONITORING OF HOG PLAGUE

Lanzhou ZHONGGUO SHOUYI KEJI [CHINESE JOURNAL OF VETERINARY SCIENCE] in Chinese
No 11, 20 Nov 86 pp 30-32

[Article by Zheng Tianran [6774 1131 3544], Liu Jun [0491 0193] and Gu Wenlong
[7357 2429 7893] of Tongshan County Veterinary Hospital, Jiangsu Province]

[Abstract] In June 1985, experiments were conducted on 22 hogs (50 to 80 days old): 15 with repeated immunization, 5 with single immunization and 2 with no immunization; the last batch of 2 hogs served as the control group. Blended serum from the test hogs were used to determine the effectiveness of hog-plague antibody. Low-strength vaccines were prepared with rejuvenation by inoculation into rabbits, which were healthy domesticated animals weighing 1.5 to 2 kg each. The minimum infection dosage (MID) was determined to be 10^{-5} . High-strength hog plague toxin was provided by the Communicable Diseases Research and Teaching Laboratory, Jiangsu Agricultural College. Bacterial phosphate solution (pH 7.2) served as the dilution liquid. Three tables show the effectiveness of the blended serum in neutralizing antibodies, comparisons between antibody effectiveness of the blended serum in neutralizing antibodies, comparisons between antibody effectiveness of blended and unblended serums, and immunity effectiveness. In conclusion, when the antibody effectiveness reaches 1:32, even high-strength plague toxin is innocuous to a hog; however, when the effectiveness is 1:8 or lower, inoculation is required.

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AGRICULTURE

STUDIES ON INTEGRATED CONTROL OF COTTON INSECTS IN NORTH CHINA

Tianjin ZHIWU BAOHU XUEBAO [ACTA PHYTOPHYLLACICA SINICA] in Chinese No 4,
Dec 86 pp 257-258

[Article by Chou Mingzang [0719 2494 3647], Yang Qihua [2779 1142 5478], Xie Yiquan [6200 0110 6898], and Xie Yongshou [6200 3057 1108], Department of Plant Protection, Beijing Agricultural University, and Ma Zhongshi [7456 0112 1395], Li Baolan [6221 1405 5695], and Tang Yinshan [0781 6892 1472], Handan Institute of Agricultural Research]

[Text] This work was carried out in 1983-1985 at Handan, Hobei Province, where the main crops are cotton and winter wheat and the key pests of cotton are the cotton aphid, *Aphis gossypii* Glover, and the cotton bollworm, *Heliothis armigera* (Huebner). The current control work for these pests relies almost solely on the use of insecticides.

This project aimed: 1) to develop control measures other than chemical control, especially those based on more sufficient utilization of natural factors such as the varietal resistance to insects and diseases, various agro-technical measures and the natural enemies of pests; 2) to establish an appropriate economic threshold for chemical control; and 3) to design an effective, economic, and environmentally safe integrated control system.

The current chemical control of the cotton bollworm emphasizes both the second and third generations, especially the second brood. Because it was believed that during the second generation, bollworm injury is the chief cause of falling squares. The authors proved that the occurrence of the second brood bollworm synchronizes with the squaring stage of cotton, during this period the compensating ability of cotton plants is very high. Hence, the control index for the second-generation ought to be higher than that for the third-brood. According to field experiments, the economic thresholds for the second and third generations were revised to be 20 early instar larvae/100plants and 6 early instar larvae/100plants, respectively.

A new integrated control system has been designed as follows: 1) seed treatment with carbofuran; 2) improving cultural practices to promote the compensating ability of cotton plants; 3) on the basis of the local cropping system of cultivating wheat and cotton in adjacent fields, where the wheat fields serving as sources of natural enemies of insect pests, intercropping serially with adequate crops in cotton fields to facilitate the immigration

and favorable development of insect predators and parasites; 4) adopting the revised economic thresholds for ascertaining necessary applications of insecticides, and 5) using disease resistant cotton varieties. Field experiments and actual control work in large scale of this integrated system proved that the populations of natural enemies were obviously raised, insect damage avoided and the number of insecticide applications might be reduced by 3-4 sprays annually. Therefore, this system is proved to be effective, more economic and may reduce environmental contamination.

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